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An Estimation of the Quantities of Silver Still in Private Ownership in China.

A Review of Commodity Prices Since the Victory.  
Velocity of Monetary Circulation in China.  
Cash Margins on the Stock Exchange: Idle Capital and Black Market.  
The Draft for a New Commercial Registration Law.  
Chinese Reactions to the Reopening of Private Trade with Japan.

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Article 18.

The penalties provided in these Regulations shall be inflicted by court ruling.

A appeal may be lodged within five days after service of the above-mentioned ruling, but no further appeal shall be made.

Article 19.

If while the lease still runs, the owner of a house, without any reason, compels or orders the lessee to move out, the lessee may request a judicial organ to give him effective protection.

Article 20.

If against legal procedure and without any adequate right, any person occupies or uses the house of another, the owner of the house may warn him to move away within a fixed time limit; he may further request a judicial organ to make him move out by compulsion.

Article 21.

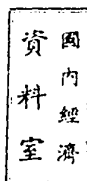
In order to comply with the needs of the localities or regions designated in Article 1, the various provincial and municipal governments may draw up supplementary measures and submit them to the Executive Yuan for confirmation.

Article 22.

These Regulations shall come into force on the day of promulgation, and the term of their effectiveness shall be three years. On the expiration of this term, the supplementary measures mentioned in the preceding Article shall simultaneously lose their effect.

( End )

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1947  
XIII



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SECOND YEAR

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1. On the Rules Governing the Application of the Special Business Tax Law.
2. On the Banking Law.
3. On the Rules Governing the Application of the Revenue Stamp Duty Law: Correction of a printer's mistake.

## EDITOR'S NOTES

- 1.- ON THE RULES GOVERNING THE APPLICATION OF THE SPECIAL BUSINESS TAX LAW promulgated by the Executive Yuan on the 11th. of June 1947, the translation of which appeared in Monthly Bulletin No. IX (June-July 1947). Annex XIII.

In a letter (Ts'ai Chih 'II' Tzu No. 53977-13890) to the Bankers' Association of Shanghai on Oct. 21st. 1947, the Ministry of Finance declares that apart from the "interest on deposits" whose temporary cancellation had already been granted (see Monthly Bulletin No. XI - Oct. 1947, P. II, Editor's Note 4), the items of "remittance charges" (charges for remittance services) and "fees" (fees received for payment services) may also temporarily be deducted in the computation of the business profits of banking institutions (see attached table of Art. 6), in order to lighten their tax burden (cf. the Bankers' Weekly, Nov. 17th. 1947).

- 2.- ON THE BANKING LAW promulgated by the National Government on the 1st of September 1947, the translation of which appeared in Monthly Bulletin No. VIII (May 1947). Annex XV and No. IX (June-July 1947). Annex XX.

a) The Ministry of Finance on Oct. 22nd. 1947 issued the following ordinance (Ts'ai Chien Ju Tzu No. 17440): Since it is laid down in Art. 110 of the Banking Law that the procedure for the business registration of banks shall be governed by the provisions of the Company Law, and according to Art. 308 of the Company Law the registration of the establishment of a branch company shall not become definite until a licence has been issued by the central competent authority, it is clear that a business licence should be issued for the registration of each branch or sub-office of a bank. Therefore all branch banks whose foundation has been approved by the Ministry, shall within one year apply to the Ministry for the issue of a business licence, submitting the licence fee and the revenue stamp duty for the licence and also setting forth the following particulars as provided in Art. 349 of the Company Law: 1) The name of the branch office; 2) Location of the branch office; 3) Full name, native place and domicile of the manager of the branch office; 4) Particulars set forth in the certificate of registration of the head office of the company and the number of the certificate (cf. the Financial Weekly, Dec. 3rd. 1947).

b) Another ordinance (Ts'ai Chien Ju Tzu No. 17442) dated Oct. 22nd. 1947, also issued by the Ministry of Finance, lays down that if the name of any bank whose registration had been approved before the promulgation and enforcement of the Banking Law, does not correspond to its type of business, either the business transactions shall be readjusted or the name shall be changed within one year after the promulgation of this law (see Art. 14 of the Banking Law); if the name of any bank fails to indicate its type, an indication shall immediately be added and an alteration shall be made in the business registration with the Ministry of Finance (cf. the Financial Weekly, Dec. 3rd. 1947).

c) According to information published in Ts'ung Pao, Shanghai, Dec. 9th. 1947, the Ministry of Finance has recently announced that all banks which have not yet readjusted their business transactions according to the law, shall comply with

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Art. 53 of the Banking Law concerning the restrictions on their investments, i.e. when they purchase certificates of shares of limited liability of companies for productive enterprises, public utilities or communications, the purchasing value of the share certificates of each company shall not exceed two per cent of the total amount of the deposits and the aggregate purchasing value shall not surpass twenty per cent of the total amount of the deposits; where previous investments have exceeded the above prescribed limits, readjustment shall be made within one year. All banks shall also, according to items 7 & 9 of Art. 50 and items 5 & 7 of Art. 59 of the Banking Law, strictly separate their investments in productive enterprises from their purchases and sales of securities, and in particular shall keep separate accounts for them.

- 3.- ON THE RULES GOVERNING THE APPLICATION OF THE REVENUE STAMP DUTY LAW published in Monthly Bulletin No. X (Aug.-Sept. 1947). Annex XXVI.

Through a printer's slip, there is a mistake in the date of promulgation given for the above-mentioned Rules; it should be: the 3rd. of July 1947.

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The MONTHLY BULLETIN is edited by The "BUREAU DE DOCUMENTATION" of the Department of Economics and Political Sciences, Aurora University (Shanghai).

Part of the work of the "BUREAU DE DOCUMENTATION" is the systematic filing of all articles in the chief Chinese periodicals (monthly, weekly and daily) which deal with the economic and financial life of the Far East. References on any subject can be found immediately by means of a detailed card index.

The aim of the BULLETIN, which appears on the 20th. of each month, is to put at the disposal of foreigners the economic and financial points of view expressed in articles in the Chinese reviews. A certain number of these articles are carefully chosen and reproduced each month in English, either in full translation or in the form of digests.

Each article translated or summarized is published separately under the heading "DOCUMENT No...." so as to enable each reader to classify them according to his personal system. A classified index will appear at the end of each year.

Where several articles on the same subject are written from widely divergent points of view the BULLETIN summarizes these points of view under the name "STUDY, No...."

When it seems advisable the BULLETIN adds to these Documents and Studies the translation of relevant laws or administrative acts, which form "Annexes" to the Documents or Studies.

The BULLETIN is being published to meet a definite need and any suggestions as to the best way of meeting that need will be welcomed.

Though the selection, translation and summarizing of the articles and other texts is done under the authority of the Bureau's Office of the Department of Economics and Political Sciences, the authors, whose names appear on each Document, Study and Annex, are alone responsible for the statements of fact or opinion expressed in them.

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| The Bankers' Quarterly (Fukien)              | (Yin Hang Chi K'an)         |
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| The Weekly Review of Laws   | (Ta Ling Chou K'an)   |

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Chong Yen Pao - Chin Yung Jih Pao - Chung Yang Jih Pao - Shang Pao -  
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| Topic:          | Tragic Condition of Monetary Circulation and Banking in China | Document No.: 73  |
| Author:         | Chi Ch'ung -wei   | Nature: Translation slightly condensed  |
| Periodical:     | Ta Kung Pao   | Number of pages: 10   |
| Dates of Issue: | Nov. 25, 27, 28, Dec. 1, 2, 1947.                             | Remarks: Original title is: "Conditions of the Monetary Circulation in China"-sub-titles are not in the original. |

TRAGIC CONDITION OF MONETARY CIRCULATION  
AND BANKING IN CHINA

Everyone knows that the present economic crisis in China is due to monetary inflation; everyone is crying out against the depreciation of currency values. Obviously besides currency inflation the present economic poverty and the rapid rise of commodity prices have many contributory causes such as wartime destruction, the decrease in production, the exhaustion of our foreign exchange reserve and the paralyzing of transportation. But currency inflation is still the most important factor, therefore in studying the trends of China's economic stress must be laid on the conditions affecting the currency itself and on the activities revolving around it.

I.- Characteristics of the Present Circulation of Money in China and its Effects on Prices.

Monetary circulation in China today presents three characteristics deserving our special attention: the inflatory volume of note issue; the increasing velocity of monetary circulation; and the steadily narrowing area in which paper circulates. With a clear understanding of these three points we can arrive at a comparatively accurate estimate of the present and future role of the legal tender in the economy of China.

1. Inflatory circulation.

According to general estimate the volume of note issue at the end of last year was about 3,500,000 million dollars. At the end of June this year it was over 10,000,000 million, showing that the Government, owing to the unbalanced budget in the first half of the year, had increased the issue of notes until it averaged over 1,000,000 million dollars per month. At the end of August, according to reliable information, the volume of notes issued was about 15,000,000 million dollars. In September and October, because of the rise in commodity prices, the note issue was greater than in any of the preceding months.

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Assuming that until November the Government was short of 3,000,000 to 4,000,000 million dollars per month, the volume of note issue cannot be less than 24,000,000 million dollars, not including notes of the Bank of Taiwan and the notes circulating in the North East. The volume of note issue in 1937 was 1,400 million dollars, even including notes issued by the various Provincial and Municipal Banks it was at most 1,800 million dollars. A comparison with the present figure shows an inflation of 13 to 17 thousand times.

While the currency has been inflated to more than 10,000 times what it was before the war, the index numbers of commodity prices show an increase of 80,000 to 90,000 times for the same period <sup>1)</sup> according to the index numbers of commodity prices worked out by the China Economic Research Bureau on November 15th, the price level was 104,671 times the prewar level, and according to the index numbers of wholesale prices for basic commodities in Shanghai, worked out at the same time by the Economic Research Bureau of the Central Bank, it was 31,802 times. The great discrepancy between the rise in price levels and the increase in the volume of note issue is explained, apart from the general principle that the rate of the rise of prices is more rapid than that of inflation, by the condition of the circulation of the fapi.

## 2. Increasing Velocity of Monetary Circulation. <sup>2)</sup>

In a period of inflation, a rise in commodity prices can be caused not only by the volume of note issue but also by the velocity of its circulation. The people of China, who have suffered from inflation for the last ten years, have all but lost both their confidence in the fapi and their interest in keeping it. No one is willing to keep fapi but all are doing their best to exchange it for goods. The period favours the philosophy of "what you save you lose and what you spend you have". Then prices fluctuate, the velocity of circulation of the fapi increases more and more. This is reflected in the liquidity of bank deposits. Before the war more than 40% of these were fixed term deposits; but now, except in a few large banks, fixed term deposits have dropped nearly to zero. In August 1947 they constituted only 0.3% of a total deposit of 1,400,000 million dollars in the banks in Shanghai, and only 10.6% of a total deposit of more than 2,500,000 million dollars in the banks of the whole country. Moreover even these deposits are mostly public funds or endowments whose term is very short, usually 10 or 15 days and at most 2 or 3 months. To attract fixed-term deposits the banks have to pay interest almost as high as that on loans; deposits that really represent savings do not exist. An examination of current deposit accounts in many banks reveals at once that though figures for debits and credits are very large, reaching hundreds of billions of dollars, yet the credit balance remains very small, usually between 100,000 and 1,000,000 dollars. Except for special reasons, such as a large payment ahead, the industrial and commercial firms will not leave large deposits in the banks.

### EDITOR'S NOTES.

1) Compare with Document No.75 in this Bulletin: "A review of Commodity Prices since the victory" (p.3) by Wang Chung-wu.

2) For a more detailed study of this matter see Document No.76 in this Bulletin: "Velocity of Monetary Circulation in China" by Hsu Chien-ping.

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From the figures for the amounts cleared through the Shanghai Clearing House we can estimate the present velocity of circulation of the fapi.

| Period                              | No. of bills | Amount of money    |
|-------------------------------------|--------------|--------------------|
| 1935                                | 2,578,913    | 56,984,361,071     |
| Monthly average                     | 214,909      | 498,692,172        |
| Daily average (on basis of 26 days) | 8,265        | 19,180,468         |
| Sept. 1947                          | 4,105,862    | 58,783,065,681,802 |
| Daily average (on 26 days)          | 157,945      | 2,200,887,141,600  |
| Ratio of increase                   | 19.1         | 118,994            |

As analysed in the above table, the number of bills cleared in September is 19 times the monthly average of 1935 and the amount cleared is 119,000 times. On the 15th and 30th of September, when the figures were highest, the number of bills was 25 times and the amount cleared 159,572 times the average of 1935. This is more than 10 times the increase in the issue of fapi. Therefore the expansion of credit currency is 10 times what it was before the war.

The economic research organisation of a certain bank has calculated the velocity of deposit circulation in modern and native banks in Shanghai from the figures of clearances and statistics of deposits in several important banks. The velocity reaches 60 times per month, which means that each dollar changes hands twice a day in the market. A parallel study by the Economic Research Bureau of the Central Bank gives the following results from January to June 1947:

|          |       |       |       |
|----------|-------|-------|-------|
| January  | 19.77 | April | 22.57 |
| February | 24.63 | May   | 33.96 |
| March    | 21.32 | June  | 38.05 |

The above statistics show that the velocity of circulation of deposit currency is continually increasing. Though no statistics later than June have yet been published, it appears that in September it increased by as much as 60 times.

From the above discussion of the velocity of circulation of deposit currency it is clear that the velocity of cash circulation, though perhaps not so high, has increased enormously as compared with the prewar period.

This increase in the velocity of currency circulation is equivalent to an increase in purchasing power which immediately creates a demand for commodities and services and thus acts as a strong stimulation to commodity prices.

### 3. The steadily narrowing area of fapi circulation.

The territory in which fapi circulates is continually narrowing, at present there are two great forces at work against its circulation in the countryside. The first is that fapi can no longer circulate in military areas, the second that in rural villages and small country towns commodities are gradually taking the place of money as a medium of exchange. Farmers and small dealers in the interior, having lost confidence in the fapi use commodities such as rice, corn or cloth as standards of payment in their sales transactions and loan obligations. Fapi is used only for the purchase of daily

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necessaries from outside and for petty expenses. Thus the distribution of fapi in the country districts continually becomes smaller while the fapi originally circulated there is gradually driven in and centralized in the large cities.

#### II.- Elimination of the True Function of Banking.

The inflation of currency can stimulate industrial and commercial development and also promote an abnormal prosperity in the banking business. But this happens only in the early stage of moderate inflation; when the commodity prices rise rapidly again and again, and hyper inflation sets in, not only is the development of proper industrial and commercial enterprise hampered but banking itself and its position in the national economy are weakened.

##### 1. The position with regard to deposits.

Before the war the amount deposited in banks throughout the country was about 4,000 million dollars: in 1936 the deposits in all commercial banks totalled 2,700 million odd dollars. The amount of the deposits was therefore at that time more than the volume of notes issued. But now the deposits in banks other than government banks for the month of August was 2,500,000 million dollars for the whole country, or the equivalent of 10 to 20% of the volume of note issue. Even if we include the deposits in the Bank of China, Bank of Communications, Farmers' Bank, Postal Remittances Savings Bank, Central Trust and Central Cooperative Bank, the amount of deposits is equivalent only to 40 or 50% of the volume of note issue. Comparison may be made with countries which possess a relatively stable currency, such as the United States, where in December 1946 the volume of circulation was 28,500 million dollars, while the deposit in commercial banks was 118,000 million dollars and the ordinary deposit in the Federal Reserve Bank was 50,400 million dollars. The total amount of deposits was more than five times the volume of notes in circulation. At the same time the volume of notes in circulation in England was 1,380 million pounds and the deposit in commercial banks was 5,085 million pounds. The amount of deposit was more than four times the volume of note issue.

If we measure the deposits today by the index numbers of commodity prices we find that its real value is pitifully small. In August when the wholesale commodity prices were 50,000 times those before the war, the deposits in the commercial banks of Shanghai amounted only to 1,400,000 million dollars, or the equivalent of 28 million dollars before the war. But in 1936 the deposits in the Shanghai Commercial and Savings Bank alone were 140 million dollars; in the National Commercial Bank, 60 million dollars and in Sin Hua Trust & Savings Bank, 30 million dollars. At present the deposits in these banks amount at most to 40,000 or 50,000 million dollars.

To prove that the volume of deposits is in inverse ratio to the depreciation of currency value we may compare the rate of deposits and the index numbers of commodity prices over 2 years. In January 1946 the deposits in Shanghai banks amounted to 33,500 million dollars, while the price index was about 1,000. Dividing the deposits by the price index we get a pre-war value of a little over 33 million dollars. In January 1947 the amount of deposits was 298,500 million dollars and the index number of commodities was almost 10,000; so that the prewar value of the deposits was only 29,850 thousand dollars. In August it had further declined to 28 million dollars: conditions were indeed going from bad to worse.

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In October a Joint Association of the Native Banks of the whole country was formed and held its first meeting at Hankin, at which the following very important statement was made concerning the position of both modern and native banks:-

"Since the inflation, the economic order has been disturbed and the greater part of the nation's capital has ceased to pass through the banking institutions. Therefore the present financial strength of the banks cannot be compared with what it was before the war. In the past, the deposits in a native bank in a village or town could meet the financial needs of several hundred farmer families. The funds of a native bank in a city could supply working capital for at least thirty to eighty factories. But now everything is changed. Native banks in the interior cities have a capital of only several hundred million dollars, while that of the small banks is scarcely worth counting. Even with deposits of 10,000 million dollars the strength of a bank is only about equivalent to that of a cloth store with a stock of a hundred odd cases of cotton cloth. It can hardly meet the demands of present-day society."

## 2. Unsound competition from Government Banks.

Another characteristic of banking today is the abnormal development of the power of the Government banks. Under their unfair competition the power of the commercial and native banks is continually decreasing. The total volume of deposits in Government banks may be compared as follows with that in other modern and native banks throughout the country for the last year and a half:- (unit: \$100 million)

| Date      | Banks of whole country | Government Banks | Ratio |
|-----------|------------------------|------------------|-------|
| Jan. 1946 | 754                    | 8,506            | 1:11  |
| June "    | 2,506                  | 31,157           | 1:13  |
| Dec. "    | 4,980                  | 53,904           | 1:11  |
| Jan. 1947 | 6,138                  | 52,480           | 1:9   |
| Mar. "    | 11,263                 | 57,093           | 1:5   |
| June "    | 14,290                 | 126,950          | 1:8   |

NOTE: Government Banks include the Central Bank, Bank of China, Bank of Communications, Farmers' Bank, Central Trust, Postal Remittances and Savings Bank and Central Cooperative Bank. The Banks of the whole country include provincial, municipal, commercial and native banks.

The reasons for the great discrepancy between the amounts deposited in the commercial and native banks and those in the Government banks are as follows:

- Government organizations and Government operated enterprises are not allowed, under the restrictions of the law, to make deposits in commercial and native banks.
- The very large loans granted by the Government banks to industrial and commercial firms are closely related to the deposits, since by the conditions laid down in the loan contracts money so borrowed from the Government banks may not be deposited in other banks.
- The establishment of branches by the commercial and native banks is restricted by law.

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Ten to fifteen per cent of the limited amount of deposits in the commercial and native banks has to be lodged with the Central Bank as deposit reserve. In August the Shanghai banks, with total deposits of 1,400,000 million dollars, had to lodge a reserve of 200,000 million with the Central Bank, which also received a deposit of 200,000 to 300,000 million dollars from the clearing banks. The Central Bank thus lessens the funds available to the commercial and native banks for daily use, by about 20 to 30%. When money is tight they cannot get relief from the Central Bank through rediscounting.

The three government banks, the Central Trust and the Postal Remittance and Savings Bank make no deposit reserve in the Central Bank against their deposits, and they can obtain a supply of capital by overdraft, rediscount and re-mortgage with the Central Bank. They can perform the functions of an ordinary commercial bank while the ordinary commercial banks cannot perform their functions. Therefore they can take advantage of their special position and powers in competing with the commercial banks. Moreover they form a special bloc with sole powers of manufacturing and controlling currency.

For the granting of loans the government banks are again in a privileged position. The ordinary loans which they have recently granted, with the approval of the Joint Head Office of the four government banks, amount to about 2,800,000 million dollars, while the total volume of loans made in August by the commercial and native banks in Shanghai only amounted to 1,000,000 million dollars; and according to the deposit ratio of the Shanghai banks to those of the whole of the country, probably the total volume of loans from the commercial banks of all China could not have been more than 2,000,000 million dollars.

### 3. The impotence of the private banks.

Space limitation prevents our setting forth all the grievances of the commercial and native banks; but we must point out how the relative weight of these banks in the general social economy has been diminished by the disappearance of the social classes who have savings, the accelerated velocity of circulation and the monopolising of the greater part of the inflated currency by the government banks. The banks can no longer absorb and utilize the wealth of society but have become mere agents of the industrial and commercial enterprises for paying, receiving, clearing and settling their working capital. The strength of the commercial banks has been so weakened that it is not even equal to that of a large factory or business firm.

All this has the following reactions on the money market:-

- a) Commercial banks cannot meet the needs of industry and business. The amount of their deposits is small and they are very floating. Therefore the term of deposit becomes shorter and shorter while the figure representing purchasing power steadily diminishes. In small and middle-sized banks, mortgaged loans at fixed term have become rare and the chief types of loan made are discount and overdraft. Some small banks grant loans on a daily basis; one day money is easy and the bank lends; next day money is tight and it at once calls in its loans. Banks whose financial standing is so weak certainly cannot satisfy the needs of industry and business. Therefore
- b) Productive enterprises, besides relying on their own resources, apply to the government for loans, resort to underground banks or themselves absorb deposits.

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c) Though the commercial banks have been weakened, they are still the centres for credit and clearance. They cannot meet the public demand for capital, but on account of the difficulty of obtaining advances from the Government they are still the main source of finance for industry and commerce. Therefore the whole money market is ordinarily influenced by the weakness of the commercial banks. But today the money market follows not the modern or native banks but the Government banks and floating capital. The commercial and native banks are now passive and receive their impetus from others.

### III.- Present Trends of China's Money Market.

For a full understanding of the situation of China's banking business we must study the present trends of the money market and the movement of capital throughout the country. Three main factors determine the present trends of the money market, the flow of loose capital to Shanghai from the interior, the movement of funds from North to South China, and the inability of the Central Bank to counteract the consequences of the unbalanced Budget.

#### 1. The flow of loose capital to Shanghai.

According to the statistics of different banks in Shanghai in 1946 the money remitted to Shanghai exceeded that remitted from Shanghai by 782,500 million dollars <sup>1</sup>). From January to September this year the inward remittances exceeded the outward by 7,780,000 million dollars. The percentage of excess of the inward remittances is steadily increasing: last year it was 200% to 300% more; this year 300% to 400%; in August it reached 656%. The cash that flows into Shanghai from all parts of the country must also amount to at least 20 to 30 thousand million dollars, judging from the fact that most of the clearance of small and middle-sized banks has to be settled in cash; but no exact statistics can be made as to the volume. Part of this money comes to Shanghai to buy industrial products and commodities, part for speculation and lending out at a high rate of interest; and part to buy foreign exchange on the black market to effect a flight of capital.

#### 2. The movement of funds from North to South China.

The direction of flow of the wealth of the country is generally from North to South. The North is the main battlefield: large amounts are paid for military expenses there and the floating funds thus created, finding no use in the North, flows in large quantity to the Southern and Eastern provinces, with Shanghai as centre, there to be exchanged for such commodities as food products, cloth and industrial goods from Central China or to be used for other activities. In the past these floating funds usually

1) NOTE: At the end of last year, the total volume of note issue only amounted to 3,500,000 million dollars.

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concentrated on the gold bar and U.S. dollar market and on the security market. But since trading in gold bars and U.S. notes has been forbidden and since the imposition of foolish restrictions on the security exchange<sup>1)</sup>, the floating fund can only concentrate on commodities or escape through buying exchange on the black market. A large quantity of the fapi concentrates in Shanghai also flows to South China by the payment of overseas remittances, while part is used to buy smuggled goods and part escapes to Hongkong, to Macao or to foreign countries. As a result the flow of fapi to the south directly breaks down the control of our foreign exchange and indirectly devalues the fapi abroad.

### 3. Inability of the Central Bank to counteract the evils of the unbalanced budget.

Public expenditure being continually in excess over public revenue, the government has to resort to continuous printing of new notes, but the notes once issued cannot be retired from circulation despite the efforts of the Central Bank. While the branches of the Central Bank are usually short of cash, the markets in the same places are flooded with currency, forming a marked contrast. In the cities of Manchuria and North China, especially, since the beginning of this year money has remained easy and only when commodity prices rose rapidly a slight monetary stringency was felt. In Shanghai the government was able to absorb only part of the inflated currency through the sale of commodities and the collection of a large amount in taxes. But the currency thus retired is limited. If we examine the clearance of the Government banks in Shanghai we shall find a credit balance of 30,000 million dollars in March, of 110,000 million in April, of 104,000 million dollars in May and June together, a debit balance of 120,000 million dollars in July and of 20,000 million dollars in August, and a credit balance of over 440,000 million dollars again in September. For these seven months, offsetting the credit and debit balances, the net credit balance was only 470,000 million dollars. But within the same period the incoming exceeded the outgoing remittances in the commercial banks in Shanghai by 7,200,000 million dollars. Therefore the volume of currency absorbed by the Central Bank in Shanghai is only one-fifteenth of the capital flowing into the city from outside<sup>2)</sup>. Though these efforts of the Central Bank have but a meagre effect on the contraction of currency, they have great influence on the money market in Shanghai. It may be said that the Shanghai money market is today the scene of the principal battle between the Central Bank and idle capital. The Central Bank, in order to contract the currency, resorts to other methods besides selling commodities and collecting taxes. It sells American treasury notes, exacts deposit reserves, clearing deposits and a margin for trading in securities. But the expenditure of the National Treasury, the purchase of commodities, the granting of productive loans and the continuous inflow of currency from outside make it impossible for its suction pump to dry up the flood of cash in Shanghai. No effort made by the Central Bank to tighten up the currency can be maintained for more than ten days, while as a result of easy money commodity prices rise steadily in a series of large increases and

1) EDITOR'S NOTE. For a detailed study of this question, see Document No. 77 in this Bulletin: "Cash Margins on the Stock Exchange: Idle Capital and Black Market" by Liu Kuang-ti.

2) NOTE: The debit and credit balances of cash are not included here; usually the Central Bank in Shanghai pays out more cash than it receives.

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small decreases. The Central Bank is fully aware that no local or temporary contractions of currency can stop the rise of commodity prices, but the rise can at least be restricted within certain limits by tightening the currency.

In this struggle between the Government banks and idle capital, the commercial banks are the first to suffer.

#### IV.- American Help is Insufficient to Break these Vicious Circles.

As everyone knows, the currency inflation is due to the unbalanced Budget, and the Budget is unbalanced mainly because of the civil war. As long as the state of war continues, none of the methods used by the Government to balance the Budget and to counteract the present monetary evils can be effectual. The sale of gold bars and commodities and the issue of bonds have already been tried; at present the Government is attempting to bring down commodity prices by controlling the commodities. But this method obviously cannot succeed so long as the production and consumption of the whole country are not in equilibrium. What then is likely to be the future tendency of finance and what will be the fate of the fapi?

Many believe that the only way to save China from economic collapse is to ask aid from America, but this is sheer illusion. The real value of American aid is often overestimated. For instance Mr. William Bullitt, in "Reactions on My Visit to China", expresses the opinion that 250 million U.S. dollars will suffice to recall all the fapi. Therefore an exchange stabilisation fund of 150 million U.S. dollars and 200 million U.S. dollars annual unsecured loan can solve China's inflation problem. We cannot agree with his point of view for the following reasons:

1. The fundamental problem in our currency inflation is not the bank notes already issued, which are already in process of inflation and have shifted their burden to the people, but the future balancing of Government finance. Though 250 million U.S. dollars can recall the existing fapi, if after its recall Government finances still cannot be balanced, the problem remains.

2. After ten years of inflation fapi has made a deep impression on the popular mind; if confidence in the currency is to be reestablished the monetary system must be reformed. Such a reform to be stable, must embody three points: there must be an ample reserve; public expenditure must not depend on note issue; and production and consumption must be mutually coherent. These three points cannot be fully achieved by aid from America, since it is to be conditional on control over China's trade and foreign exchange and limited to the supply of foreign exchange and commodities.

3. Currency inflation is not the only factor in the rise of commodity prices. The civil war is destroying or obstructing industrial, mineral and agricultural production and paralyzing transportation. The consequent decline in production and difficulty in moving commodities from place to place are the main causes accelerating the rise of commodity prices. Therefore so long as military destruction continues, production remains stagnant and transportation fails to operate smoothly, even though outside aid is forthcoming and the monetary system is reformed, commodity prices cannot be stabilised; and unless they are stabilised currency inflation will simply repeat itself when outside aid is reduced or withdrawn.

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4. Until the war is ended it will be extremely difficult to restore popular confidence in the currency by the issue of another kind of paper money, even with ample foreign exchange, gold or commodities as reserve, since many of the farmers in China no longer have any confidence in the fapi and will not be able to distinguish between it and the new issue. It will be very difficult to reestablish confidence unless metallic coinage is put into circulation; but to change from a paper to a metal currency of a gold or silver standard is hardly in accordance with modern trends, and the United States will not be willing to lend gold to China. Furthermore the value of such money would be dependant on the price of gold and silver in the international market; and as these prices are controlled by others we could not stabilise the value of the money by our own efforts. Once it is put into circulation within the country it may be adversely affected by these outside causes.

We are therefore forced to the conclusion that in spite of all hopes the United States cannot solve our currency inflation problem nor stabilise the economy of China. The reason is that the present economic state of China may be compared to a man suffering from a serious illness. His most urgent need is quiet and rest. American aid can only be a tonic; but if the sick man only takes a tonic and does not rest, no good doctor will undertake to cure him.

( End )

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|----------------|--|--------------------|
| Topic:         | An Estimation of the Quantities of Silver Still in Private Ownership in China. | Document No.: 74   |
| Author:        | Yang Shih-sheng  | Nature: Digest     |
| Periodical:    | Central Bank of China Monthly (Chung Yang Yin Hang Yueh Pao)                   | Number of pages: 6 |
| Date of Issue: | Oct. 1947.   | Remarks: None.     |

AN ESTIMATION OF THE QUANTITIES OF SILVER  
STILL IN PRIVATE OWNERSHIP IN CHINA

Although China has never been a silver producing country she had a silver standard currency up to Nov. 4th, 1935 and for this reason the variations of silver price on the international market exerted a strong influence on her foreign trade and economic conditions in general. When, in Nov. 1935, the Chinese Government abandoned the silver standard to adopt the "managed" Rapi the circulation of silver coins was forbidden and people were instructed to hand over to the government banks whatever silver was in their possession. Only a relatively small amount was actually surrendered and in many parts of the country people distrustful of the new currency held to their silver hoarding. When international conditions were favourable large amounts of silver were smuggled and meanwhile a part of the hoarded silver has been disposed of for industrial purposes.

This being so it would be interesting to try to evaluate what approximate amount of silver remains at present in the possession of individuals or corporate persons in China. This would show to what extent fluctuations of silver prices on the international market still influence Chinese economy as a whole and what help the Chinese Government could obtain in its fight for disposable foreign exchange and other economic purposes, if it could by any means get hold of the silver privately possessed in this country.

## I. - Methods of Estimation.

Owing to lack of statistics the estimation of the stocks of silver actually held in China is not an easy matter. The only general figures at our disposal are those compiled by E. Kahn on the amount of silver in China in 1930, which he recorded to be 2,500,000,000 ounces, and the data on imports and exports since 1930, based on the returns of the Chinese Customs, which owing to the varied units used in computation (Haikwan tael, Customs Gold Unit, Shanghai tael and Chinese National or Standard dollar) have to be converted to ounces. The quantity of silver smuggled in 1934 is known to have been 301,378,000 ounces, representing definitely the maximum attained during all these years. Meanwhile it is estimated that silver used for industrial purposes and ornaments represents one fifth of the total stock.

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These various elements make it possible to figure approximately the total quantity of silver remaining in the whole country and belonging either to the government or to individuals.

It remains that, in order to find out the stock in private hands it is necessary to appraise the government stock and deduct it from the results obtained already. There is no available record concerning the amount of silver handed over to the governmental institutions between Nov. 1935 and the declaration of war.

Efforts made by the authorities to collect silver during war time met with little success. It is reported that the four government banks gathered scarcely 140,000 ounces in the whole year 1942 so that it is safe to assume that 500,000 represent a maximum for the 4 following years. It is true that after the war, a very large amount of silver, about 200,000,000 ounces went to the government from the Federal Reserve Bank of the puppet government of North China and the Central Reserve Bank and the Hua Hsing Bank of the puppet government of Central China. This last amount can be taken as representing the present stock of silver in Government possession. By deducting it from the total obtained as indicated above we will obtain the quantity in private hands (Formula A).

The last steps to take in our estimation will be to distinguish in these private stocks, the amount of silver coins from that of silver bullion. This will present no difficulty for we know the total circulation of silver coins in 1935 and we can estimate the quantity which has since been restored to the government, or disposed of by industrialists or sent abroad. The difference between the coins circulated in 1935 and these restored or disposed of since 1935 will give the quantity kept by the people in China (Formula B).

To ascertain the amount of bullion privately owned it will suffice to multiply the results of Formula B by 0.77, to convert coins into ounces, and deduct this result from the figures obtained in Formula A.

#### II.- The Three Formulas for Computing the People's Stock of Silver.

Formula A. "Total silver stock in China in 1930" minus "Difference between importation and exportation of silver in the years 1930 to 1947" minus "Amount of silver smuggled to foreign countries" minus "quantity of silver used in industry" minus "Government's stock of silver" equals "Total people's stock of silver".

$$\text{so: } 2,500,000,000 \text{ 1)} - 693,576,836 \text{ 2)} - 301,378,000 \text{ 3)} - 540,000,000 \text{ 4)} \\ - 200,000,000 \text{ 5)} = 765,045,164 \text{ ounces.}$$

- Notes: 1) This is Kann's estimation; see attached Table V.  
 2) See attached Table III.  
 3) See attached Table IV.  
 4) 1/6 of the total stock of silver of the whole nation is considered by well-informed authorities to have been used in industry and ornaments.  
 5) The approximate amount of silver taken over from the Puppet Governments after Victory is here considered as the National Government stock.

Formula B. "Quantity of silver coins circulated in 1935" minus "quantity of silver coins which have left the country since 1935" minus "quantity of silver coins restored to the Government" minus

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"Silver coins used for industry" (i.e. coins destroyed) = "Quantity of silver coins kept by the people".

1,815,845,000 <sup>1)</sup> - 758,037,932 <sup>2)</sup> - 424,839,000 <sup>3)</sup> - 181,584,500 <sup>4)</sup>

= 551,373,568 pieces.

Notes: 1) For the quantity of silver coins circulated in 1935,

see attached Table II.

2) See attached Table VI.

3) See attached Table VII.

4) The quantity of silver coins destroyed is here presumed to be 1/10 of the sum circulated.

Formula C. "Total people's stock of silver at present" minus "Quantity of silver in ounces derived from the quantity of silver coins kept by the people" equals "Quantity of silver bullion kept by the people of whole country".

765,045,164 <sup>1)</sup> - (551,373,568 <sup>2)</sup> x 0.77) = 765,045,164 - 424,557,647

= 340,487,517 oz.

Notes: 1) Figure from Formula A.

2) Figure from Formula B. multiplied by 0.77 to convert the sum into ounces given that dollar contains 77% of silver.

#### III. - Conclusion.

The question now arises whether or not the 764,000,000 ounces of silver at present held by our people can play an important role in China's finance of to-day.

According to a report of Router on August 27, the market price in New York was US\$0.69 for one ounce of silver. Meanwhile one ounce of gold costs officially US\$35 so that 765,000,000 ounces of silver would be equivalent to 16,191,611 ounces of gold. If the Government could get hold of it, it would be equivalent to a loan of US\$500,000,000, or one and a half times the excess value of imports over exports in the year 1946, and would greatly relieve our finance and international balance.

But it seems unlikely that the Government can persuade the people to hand over their silver holdings. It is estimated that the biggest holdings are kept by people living in the far remote border areas, who still use silver coins in their transactions. Furthermore, the failure of 1935, although such money had been wanted in setting up exchange establishments throughout the country, is not very encouraging for a new trial in the present state of affairs.

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( See Attached Tables on next pages )

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( See Attached Tables on next pages )

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TABLE I.- Showing the Value of Importation and  
Exportation of Silver from 1930 to 1947.  
(of Customs Reports)

| Year          | IMPORTATION        |                 | EXPORTATION    |                         |
|---------------|--------------------|-----------------|----------------|-------------------------|
|               | Silver Bullion     | Silver Coins    | Silver Bullion | Silver Coins            |
| 1930          | HK 1) 102,559,947  |                 | HK. 35,554,029 |                         |
| 1931          | " 75,887,687       |                 | " 30,442,671   |                         |
| 1932          | " 88,414,489       | HK. 8,840,779   | " 6,737,665    | HK. 62,863,187          |
| 1933          | CN\$ 2) 59,358,917 | CN\$ 21,073,557 | CN\$ 7,948,598 | CN\$ 86,906,316         |
| 1934          | " 3,396,728        | " 7,434,652     | " 11,338,201   | " 256,220,330           |
| 1935          | " 2,579            | " 10,996,768    | " 33,178,579   | " 37,215,818            |
| 1936          | " 1,889            | " 4,710,903     | " 21,404,000   | " 232,932,763           |
| 1937          | "                  | " 594,880       | " 2,607,045    | " 396,479,158           |
| 1938          | "                  | " 372           | " 1,261,552    | " 79,068,143            |
| 1939          | " 824              | "               | " 179,455      | " 1,787,418             |
| 1940          | "                  | "               | "              | " 16,794,640            |
| 1941          | " 4,284            | " 2,600         | "              | " 3,245,360             |
| 1942          | "                  | "               | "              | " 620                   |
| 1943          | "                  | "               | "              | " 57,500                |
| 1944          | CRB 3) 5,557,778   | CRB 1,500       | FRB 5)         |                         |
| 1945          | Oz 4) 2,777,778    |                 |                |                         |
| 1946          | CN\$ 18,718        |                 |                |                         |
| 1947-<br>June | CN\$ 25,302,000    |                 | Oz 3,390,681   | CN\$ 8,000<br>5,217,162 |
|               |                    |                 |                | CN\$ 27,643,066,000     |

NOTES: 1) HK = Haikwan Tael  
2) CN\$ = Chinese National Dollar  
3) CRB = Puppet Central Reserve Bank Currency  
4) Oz = Ounces  
5) FRB = Puppet Federal Reserve Bank Currency.

TABLE II.- Showing the Amount of Silver Dollars in  
Circulation up to the End of 1935.

|   |                 |
|---|-----------------|
| 1. At the end of 1932 the number of silver dollars in circulation was as follows. | \$1,707,226,000 |
| 2. The number of silver dollars (coins) minted in 1933.                           | 27,670,000      |
| 3. The number of silver dollars (coins) minted in 1934.                           | 70,950,000      |
| 4. The No. of silver coins minted in the 1st. semester of 1935.                   | 10,000,000      |
| TOTAL   | \$1,815,846,000 |

NOTE: This table is the combination of Page 108 and Page 116 of the "Recent History of Finance in China" written by a Japanese.

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TABLE III.- Showing the Differences between Exportation and Importation of Silver from 1930 to 1947, by weight (from Custom Reports after Conversion to Ounces).

| <u>Year</u>         | <u>Ounces</u> | <u>Year</u> | <u>Ounces</u> |
|---------------------|---------------|-------------|---------------|
| 1930                | - 79,971,563  | 1939        | + 1,513,858   |
| 1931                | - 54,258,627  | 1940        | + 12,931,873  |
| 1932                | - 5,656,099   | 1941        | + 2,493,627   |
| 1933                | + 11,105,278  | 1942        | + 477         |
| 1934                | + 197,680,675 | 1943        | + 44,275      |
| 1935                | + 43,736,174  | 1944        | - 4,296,244   |
| 1936                | + 192,209,926 | 1945        | - 2,158,889   |
| 1937                | + 306,837,095 | 1946        | - 18,724      |
| 1938                | + 60,735,880  | 1947-June   | + 8,607,843   |
| TOTAL + 693,576,836 |               |             |               |

NOTES: { - } Means import excess  
{ + } Means export excess.

TABLE IV.- Smuggling in 1934.

\$391,400,000 or 301,378,000 ounces (1 = 0.77 oz) of silver were smuggled abroad in 1934, according to Page 128 of "The Articles of China's International Payments".

TABLE V.- Total Amount of Silver in China in 1930.

Mann had ascertained that China had at least 2,500,000,000 ounces of silver among which these were 1,700,000,000 silver dollars (cf. Central Bank of China Monthly, May 1934).

TABLE VI.- Showing the Difference in the Importation and Exportation of Silver Coins from 1935 to 1947.

| <u>Year</u> | <u>Importation</u> | <u>Exportation</u> | <u>Difference</u> |
|-------------|--------------------|--------------------|-------------------|
| 1935        | 10,996,768         | 37,215,818         | + 26,219,050      |
| 1936        | 4,710,903          | 232,932,763        | + 228,221,869     |
| 1937        | 594,880            | 396,479,158        | + 395,884,278     |
| 1938        | 372                | 79,068,143         | + 79,067,771      |
| 1939        |                    | 1,787,418          | + 1,787,418       |
| 1940        |                    | 16,794,640         | + 16,794,640      |
| 1941        | 2,600              | 3,245,360          | + 3,242,760       |
| 1942        |                    | 620                | + 620             |
| 1943        |                    | 57,500             | + 57,500          |
| 1944        | 21,500             |                    | - 21,500          |
| 1945        |                    |                    |                   |
| 1946        |                    | 8,000              | + 8,000           |
| 1947        |                    | 6,775,535          | + 6,775,535       |
| TOTAL       |                    |                    | + 758,037,932     |

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TABLE VII.- Showing the Amount of Banknotes Issued for Buying Silver Coins from 1935 to 1936.

|   |                    |
|---|--------------------|
| Amount of Banknotes issued up to December 1936. | \$1,167,804,000    |
| Amount of Banknotes issued up to November 1935. | <u>542,965,000</u> |
| Amount issued in 1936.                          | \$ 624,839,000     |

As the average annual increase of note issue during the years 1930 to 1935 was about \$200,000,000; so the total amount of banknotes issued for the purpose of collecting silver may be considered as

|                      |
|----------------------|
| 624,839,000          |
| <u>- 200,000,000</u> |
| 424,839,000          |

NOTE: From Yu Chieh-liang's "China's New Currency Policy". Page 220.

( End )

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U N I V E R S I T E L ' A U R O R E  
- S h a n g h a i -

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|                |  |   |
|----------------|--|---|
| Topic:         | A Review of Commodity Prices Since the Victory | Document No.: 75  |
| Author:        | Hong Chung-wu                                  | Nature: Digest  |
| Periodical:    | The Oriental Review                            | Number of pages: 11   |
| Date of Issue: | (Tung Fang Tsa Chih)<br>Oct. 1947.             | Remarks: Original title is: "The Problem of Commodity Prices at the Present Stage". |

A REVIEW OF COMMODITY PRICES  
SINCE THE VICTORY

Fluctuations in commodity prices may be due either to changes in the supply and demand of various goods, or to variation in the value of the currency in circulation, or to both. At present however, commodity prices in China are mainly affected by the monetary depreciation.

I.- Three Stages of Monetary Inflation  
and Commodity Prices.

The monetary inflation in this country falls into three stages.

1. First Stage: July 1937-Dec. 1939.

The Government utilized currency inflation as a means to increase the purchasing power of the people by issuing more notes on the market. During this stage, all goods in stock were easily sold out, and production greatly improved. All idle capital and labour as well as equipment were fully utilized. The rise in commodity prices was not very great and the velocity of monetary circulation was lower than the rate of currency inflation. To obtain work was by no means difficult, and business in general was very prosperous. But this stage did not last long.

2. Second Stage: Jan. 1940-Aug. 1945.

On account of accelerating currency inflation, commodity prices rose to higher levels. The faster the increase of commodity prices, the more unbalanced was the national budget, the greater the note issue, the faster became the currency inflation, and commodity prices soared still further. The movement of currency inflation had become a vicious circle. Between December 1943 and Aug. 1945, the rate of increase of commodity prices was 5:1 as compared with the rate of currency inflation (see Table 1 below). At that time, the amount of production possible with the existing technique and equipment had already reached its maximum, and no increase in capital or labour could do anything to increase it. Consequently, the growth of the output of goods lagged far behind the increase of currency issue. Commodity prices rose tremendously, and the rate of interest went up accordingly. As a

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result, the more rapid the turnover of capital, the larger was the profit realized, and on the contrary, the longer the period of production, the darker the prospect. Hence, agriculture became less lucrative than industry, industry than commerce, and commerce less profitable than speculation. In the arena of speculation, those equipped with great financial power always benefit substantially by a rise in commodity prices. Consequently, productive enterprises had to face depression while a sense of uncertainty prevailed throughout the country, as the poor became poorer and the rich became richer.

### 3. Third stage: Sept. 1945 up to the Present.

This stage has witnessed a striking change in the history of the inflation. At the time of the Japanese surrender, a golden opportunity for economic rejuvenation was actually offered to China. Her situation markedly differed from that of the war period:

- 1) The circulating zone of the legal tender expanded to the whole of China, so that currency inflation was less felt.
- 2) As the prosperous coastal areas were recovered, supplies of materials could more easily be obtained and sources of taxation were much enlarged;
- 3) Many wartime organizations of the Government could be dissolved, thereby reducing its expenditure;
- 4) China's US\$350,000,000 in the U.S.A. were unfrozen and two payments aggregating US\$550,000,000 were made by the U.S.A. for the expenses of American forces in this country so that the total amount of U.S. dollars at China's disposal reached 900,000,000. At the conclusion of the war, China had 3,500,000 ounces of gold in stock and took over 500,000 ounces from the puppet Central Reserve Bank of China. 1) In addition approximately US\$1,000,000,000 worth of properties and materials were taken over from the enemy and the puppets 2), and US\$500,000,000 worth of relief goods totaling 2,700,000 tons were received from UNRRA 3). This enabled the Chinese Government to bring down price levels by selling gold, U.S. notes and materials and recalling currency notes to the vaults of the Central Bank;
- 5) The lifting of the coastal blockade made it possible for production tools to be imported; productive technique and also production itself were greatly improved.

For the above reasons, after V-J Day, there was even a drop in the commodity prices. Though currency inflation continued, the relative rise in prices slowed down. Towards December 1946, the ratio between commodity prices and note issue was only 2.3:1.

#### NOTES:

- 1) cf. "Present Finance and Legal Tender", by Yang P'ei-hsin, Wen Hui Pao, April 1st, 1947.
- 2) cf. figures issued by the Alien Property Administration as published in various newspapers on March 21st, 1947.
- 3) cf. report by the Director General of UNRRA, P.H. Ho, at the People's Political Council as given in various newspapers on May 28th 1947.

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TABLE I  
Indices of Currency and Commodity Prices<sup>1)</sup>  
(June 1937-Aug. 1947)

| Time      | Amount Issued<br>(Unit: C\$100,<br>000,000) | Currency Issue<br>Index | Commodity Price<br>Index (1937<br>months of 1937,<br>100) | Commodity Price<br>Index compared<br>with Currency<br>Issue Index (2) |
|-----------|---|-------------------------|---|---|
| June 1937 | 14  | 100                     |   |   |
| Dec. 1937 | 16  | 113                     | 106.7   | 94.4  |
| Dec. 1938 | 23  | 170                     | 170.0   | 100.0   |
| Dec. 1939 | 31  | 222                     | 340.1   | 153.2   |
| Dec. 1940 | 78  | 557                     | 1,223.7   | 219.7   |
| Dec. 1941 | 150   | 1,071                   | 3,043.1   | 284.1   |
| Dec. 1942 | 240   | 1,714                   | 8,062.0   | 470.4   |
| Dec. 1943 | 750   | 5,357                   | 23,452.0  | 437.8   |
| Dec. 1944 | 1,900                                       | 13,571                  | 71,921.8  | 530.0   |
| Aug. 1945 | 5,000                                       | 35,715                  | 179,500.0   | 502.6   |
| Dec. 1945 | 10,390                                      | 74,214                  | 140,448.0   | 189.2   |
| Dec. 1946 | 35,000                                      | 249,999                 | 571,313.0   | 228.5   |
| Apr. 1947 | 65,000                                      | 464,286                 | 1,425,258.0   | 307.0   |
| June 1947 | 93,000                                      | 707,143                 | 2,993,071.0   | 423.3   |
| July 1947 | 117,000                                     | 835,714                 | 3,116,857.0   | 373.0   |
| Aug. 1947 | 135,000                                     | 964,286                 | 3,195,693.0   | 331.4   |

Unfortunately the influence of other factors soon began to be felt. The civil war raging with full fury caused tremendous devastation and damage to coal mines, railways and productive areas. Communications were handicapped and the transportation and sale of products were rendered difficult. A general depression prevailed. The ever increasing war expenditure engulfed the Government in financial distress, and made it necessary to have recourse to note issue, thereby once more launching the country into a vicious circle of inflation. As a result, fluctuations in commodity prices were very marked in 1947. If the price level of January 1946 is taken as basis, then in August 1947, the price of rice had increased 43 times, U.S. notes 27 times, gold 32 times and wholesale commodity prices 27 times.

1) NOTES: a. References for Amounts of Issue: - For 1937 to 1939, cf. "Outlines of Statistics of the Chinese Republic"; for 1940 to 1945, cf. article by Yang P'ei-hsin, *Wan Hui Pao*, April 1st, 1947; for 1946 up to April 1947, cf. the financial report by Finance Minister O.K. Yui on May 7th, 1947; for 1947, cf. article written by Dr. H.D. Feng, *Chin Yung Jih Pao*, August 22nd, 1947.

b. References for Commodity Price Indices: For the period before 1944, cf. "The Wholesale Commodity Price Index in Chungking" by Heng Chung-wu, *Special Bulletin of Commodity Prices in Chungking*, Vol. I & II, published by the Postal Remittance and Savings Bank; for 1945, cf. the Wholesale Commodity Price Indices in Chungking, compiled by the Central Bank; for 1946 and 1947, cf. the Wholesale Commodity Price Indices in Shanghai, compiled by the Central Bank.

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TABLE II

Monthly Price Indices Jan.1946 to Aug.1947 1)

| Month | Gold                 | U.S. Dollars         | Rice | General Commodities |
|-------|----------------------|----------------------|------|---------------------|
| 1946: |                      |                      |      |                     |
| Jan.  | 100                  | 100                  | 100  | 100                 |
| Feb.  | 185                  | 138                  | 233  | 180                 |
| March | 175                  | 136                  | 317  | 211                 |
| April | 172                  | 140                  | 364  | 219                 |
| May   | 195                  | 158                  | 600  | 255                 |
| June  | 209                  | 174                  | 552  | 259                 |
| July  | 215                  | 170                  | 706  | 280                 |
| Aug.  | 226                  | 197                  | 688  | 300                 |
| Sept. | 236                  | 241                  | 803  | 330                 |
| Oct.  | 247                  | 290                  | 753  | 345                 |
| Nov.  | 277                  | 308                  | 653  | 324                 |
| Dec.  | 370                  | 395                  | 702  | 383                 |
| 1947: |                      |                      |      |                     |
| Jan.  | 418                  | 449                  | 765  | 468                 |
| Feb.  | 600                  | 815                  | 1563 | 865                 |
| March | 530                  | 813                  | 1260 | 826                 |
| April |                      |                      | 1670 | 1184                |
| May   |                      |                      | 3420 | 1760                |
| June  |                      |                      | 6010 | 2120                |
| July  |                      |                      | 4720 | 2440                |
| Aug.  | (3174) <sup>2)</sup> | (2663) <sup>2)</sup> | 4342 | 2671                |

#### II.- Reflections on the Government Policy in Fighting Against the Soaring of Commodity Prices.

As has been mentioned above, after V-J Day, in order to bring down commodity prices, the Chinese Government had such recourse to the so-called 'tightening of currency' policy, by selling gold, U.S. notes, alien and puppet properties as well as U.S. Army surplus materials and taking back U.S. notes from the people's hands. But so long as the Government had not a balanced budget, all such measures could be of little avail. We have merely to consider the budgetary position of the Government for 1946: the budget amount had been set at CN\$2,750 billion, but the actual expenditure reached 6,000 billion or 2.4 times the first estimate 3). Further, in connection with this currency tightening policy, the Government has passed many erroneous measures whose evil effects may be cited below:

First, at the time when the Government tried to tighten the currency, it simultaneously promoted the policy of a low rate of interest among bankers. As a result, all depositors withdrew their money

#### NOTES:

1) from Chang Yen Pao.

2) The figures in brackets are approximate. In January, 1946, the price of one ounce of gold was CN\$5,685 and of a U.S. note CN\$1,470. The price of gold around August 1947 is here taken as CN\$2,700,000 and that of a U.S. note CN\$39,000.

3) cf. article by Chen Shao-pin, Ta Kung Pao, March 10th, 1947.

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from banks and either invested in speculation or passed it to 'underground' banks which escaping all Government control, paid high interest to absorb deposits and engaged in speculations and hoarding.

Secondly, when on account of large sales of U.S. notes by the Government, U.S. dollar quotations were kept to a very low level (see Table 3 below), no limitation was imposed on imports. The result was that the Chinese market was congested with cheap imported goods, which dealt a deadly blow to domestic industries.

Thirdly, after the Government had lost too much foreign exchange, it began to think of restricting imports. Consequently commodity prices soared still higher.

Fourthly, the selling of large quantities of gold and U.S. notes by the Government at low quotations greatly reduced its financial power. According to information from a reporter in Washington, China's foreign exchange sinking fund in January 1st, 1947 was only US\$50,000,000 1). Though this information may not be reliable, yet the financial stringency of our Government at this time is out of question. When the Government could not sell any more gold or greenbacks, immediately the price of the latter rose, and commodity prices were also brought up. The country faced a most serious financial crisis known as the "gold and greenback rush".

TABLE III

Commodity Prices and Gold & U.S. \$ Quotations  
in the 1st Half of 1937 & on Jan. 15th, 1947 2)

| <u>Kind</u>       | <u>Price in the 1st.<br/>half of 1937</u> | <u>Price on Jan.<br/>15th, 1947</u> | <u>Number of<br/>times in-<br/>creased</u> |
|-------------------|---|-------------------------------------|--|
|                   | <u>(Cdn\$)</u>                            | <u>(Cdn\$)</u>                      |  |
| Rice (Shih fan)   | 11.41                                     | 69,000                              | 6,047                                      |
| Flour (49 lbs.)   | 3.97                                      | 27,000                              | 6,801                                      |
| Cotton (Shih fan) | 45.0                                      | 157,000                             | 3,488                                      |
| Wool (Shih fan)   | 22.3                                      | 135,000                             | 6,054                                      |
| Coal (Ton)        | 22.7                                      | 750,000                             | 33,039                                     |
| Pig Iron (Ton)    | 109.5                                     | 2,400,000                           | 21,917                                     |
| Gold (Ounce)      | 115.0                                     | 373,250                             | 3,246                                      |
| 1 U.S.\$          | 3.33                                      | 6,625                               | 1,989                                      |

### III.- The Gold & Greenback Rush and its Effect on Commodity Prices.

It is first to be noted that since the enforcement of the legal tender policy in China in 1935, the buying power of the Chinese dollar has been dependent upon its value as compared with foreign currencies. Hence the rise or fall in quotations of foreign exchange reflects directly the external value and indirectly also the domestic value of the Chinese legal tender. In a similar way, gold as a precious metal has also been serving as instrument for measuring the foreign as well as domestic value of the Chinese currency.

#### NOTES:

- 1) cf. report by the Director General of CMRRA, P.H.Ho, at the People's Political Council as given in various newspapers on May 28th, 1947.
- 2) from the Financial Weekly published by the Joint Head Office of the 4 Government Banks.

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The term gold & greenback rush refers to the rapid soaring of the quotations of gold and greenbacks, which stimulated the rise in commodity prices. The main cause of this crisis already given at the end of the preceding chapter was accentuated by many other factors.

In December 1946, the quotation of the U.S. dollar once reached the height of CN\$7,700 and gold was at CN\$395,000 per ounce. Later the Central Bank sold out gold and greenbacks in huge quantities, and on the 23rd. of the same month the quotations began to drop, with gold becoming stable at CN\$340,000. The Chinese Lunar New Year came in the latter half of the month of January 1947. A bonus was given to workers by various factories in Shanghai, aggregating more than CN\$500 billion. The Government granted industrial loans to 314 factories, which amounted to 65.5 billion <sup>1)</sup>. At the same time the Central Bank issued new denomination notes of 250 and 500 Customs Gold Units totalling about CN\$390 billion as estimated from the number printed on the new notes <sup>2)</sup>. Furthermore, as in many places, peace and order could not at once be restored, capital fled to Shanghai from the interior. In January and February 1947, about CN\$500 billion poured into Shanghai <sup>3)</sup>. Therefore, loose capital suddenly increased on the Shanghai market, and the control of the Government over gold and greenbacks became weak. As a result, the price of gold exceeded 400,000 per oz. With one more huge selling by the Government, the soaring was temporarily checked. On the 4th of February, however, the price of gold reached 480,000, and on the 10th, the Central Bank suspended the selling of the metal. A great excitement reigned over the market. On the 10th and 11th gold rose by 200,000 daily and registered a maximum of CN\$940,000 on the 11th. The market thus became very chaotic and all gold shops and native banks suspended their business.

TABLE IV

Daily Quotations of Gold and U.S. Dollars-Jan. 4th. to Feb. 14th. 1947. <sup>4)</sup>

| <u>Date</u> | <u>Gold Quotations</u> | <u>U.S. Quotations</u> |
|-------------|------------------------|------------------------|
| Jan. 4th.   | CN\$350,000 per ounce  | CN\$ 6,500 per US\$1   |
| 6th.        | 358,000                | 6,500                  |
| 7th.        | 360,000                | 6,300                  |
| 8th.        | 364,000                | 6,250                  |
| 9th.        | 370,000                | 6,400                  |
| 10th.       | 384,000                | 6,700                  |
| 11th.       | 374,000                | 6,700                  |
| 13th.       | 368,000                | 6,500                  |
| 14th.       | 372,000                | 6,700                  |
| 15th.       | 378,000                | 6,600                  |
| 16th.       | 375,000                | 6,500                  |
| 17th.       | 386,000                | 6,600                  |
| 18th.       | 384,000                | 6,500                  |
| 24th.       | 413,000                |                        |
| 27th.       | 408,000                | 7,100                  |
| 28th.       | 396,000                | 6,800                  |
| 29th.       | 396,000                | 6,900                  |
| 30th.       |                        | 7,000                  |
| 31st.       | 413,000                | 7,900                  |

## NOTES:

- 1) cf. report by the Government Committee on the Gold and Greenback Rush. A billion is here taken as 1,000,000,000.
- 2) cf. article written by Wang Szu-shu, Wen Hui Pao, April 23rd. 1947.
- 3) cf. Chin Yung Jih Pao, July 4th. 1947.
- 4) From Chin Yung Jih Pao, July 2nd. 1947.

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TABLE IV (Cont'd)

| <u>Date</u> |  | <u>Gold Quotations</u> | <u>U.S. Quotations</u> |
|-------------|--|------------------------|------------------------|
| Feb. 1st.   |  | CN\$410,000 per ounce  | CN\$ 7,700 per US\$1   |
| 3rd.        |  | 445,000                | 8,000                  |
| 4th.        |  | 480,000                | 8,800                  |
| 5th.        |  | 495,000                | 8,800                  |
| 6th.        |  | 491,000                | 8,800                  |
| 7th.        |  | 531,000                | 9,400                  |
| 8th.        |  | 595,000                | 10,400                 |
| 10th.       |  | 700,000                | 14,000                 |
| 11th.       |  | 940,000                | 18,000                 |
| 12th.       |  | 830,000                | 15,000                 |
| 13th.       |  | 710,000                | 14,000                 |
| 14th.       |  | 730,000                | 12,000                 |

Finally, Emergency Economic Measures were promulgated by the government, prohibiting the circulation of foreign currencies, the buying and selling of gold and also speculation. The official rate of foreign exchange was readjusted to CN\$12,000 for US\$1 and the cost of living index was frozen, taking that of January 1947 as the maximum. As no effective control was laid on importation and at the same time no sufficient foreign exchange was supplied for necessary imports, the foreign exchange black market was still rampant. The government wanted to call in all gold at the officially regulated price of CN\$480,000 per ounce, but did not succeed. As to freezing the cost of living index, there were many practical difficulties. Since the government could not freeze the commodity prices, how could it peg the index? Hence, the effect of the Economic Emergency Measures could not be lasting. The following table shows commodity price levels before and after the Gold and Greenback Rush:

TABLE V

Fluctuations in Commodity Prices in Shanghai Before and After the Gold & Greenback Rush 1)

| <u>Name of Commodity</u>      | <u>Feb. 6th. (10 Days before EEM 2)</u> | <u>Feb. 11th. (Peak of Rush)</u> | <u>Feb. 17th. (Day of Pro-mulgation of EEM)</u> | <u>Apr. 1st. (1 month after EEM)</u> | <u>Apr. 13th. (2 months after EEM)</u> |
|-------------------------------|---|----------------------------------|---|--------------------------------------|--|
|                               | CN\$                                    | CN\$                             | CN\$  | CN\$                                 | CN\$                                   |
| Rice (Shih Ton)               | 86,000                                  | 140,000                          | 120,000   | 107,000                              | 144,000                                |
| Flour (Bag)                   | 40,000                                  | 40,000                           | 52,000  | 53,000                               | 70,000                                 |
| Edible Oil (100 Shih Chin 3)) | 190,000                                 | 300,000                          | 235,000   | 287,000                              | 350,000                                |
| Cotton (Szu K. Ton 4)         | 250,000                                 | 580,000                          | 520,000   | 650,000                              | 930,000                                |
| Bituminous coal (Ton)         | 800,000                                 | 950,000                          | 1,000,000                                       | 1,200,000                            | 1,200,000                              |
| Pig Iron (Ton)                | 3,200,000                               | 3,000,000                        | 7,000,000                                       | 4,000,000                            | 5,000,000                              |
| Steel (100 Shih Chin)         | 2,200,000                               | 3,500,000                        | 3,500,000                                       | 7,540,000                            | 3,000,000                              |
| Cement (Barrel)               | 100,000                                 | 100,000                          | 75,000  | 190,000                              | 220,000                                |

## NOTES:

- 1) From the Financial Weekly.
- 2) EEM stands for Economic Emergency Measures.
- 3) 1 Shih Chin = 0.5 Kgr.
- 4) 1 Szu K. Ton = 41.34 Kgrs.

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## IV.- The Rice Rush and its Aftermath.

The year 1946 immediately after the conclusion of the war, witnessed a fair improvement in the food situation in China. During that year supplies of rice and wheat in this country totalled 1,367,163,000 Shih Tan, a little more than in 1936 (see Table 6 below), while after the protracted war, the Chinese population must have diminished. Therefore, it did not seem likely that there would be any shortage in food supplies in the following year 1947. Nevertheless the food problem, as we shall see, is far from being solved in 1947.

TABLE VI

Supplies of Rice and Wheat in 1946 <sup>1)</sup>  
(Unit: 1,000 Shih Tan)

| Year | Quantity of Production | Quantity of Import | Total     |
|------|------------------------|--------------------|-----------|
| 1946 | 1,357,532              | 9,631              | 1,367,163 |
| 1936 | 1,332,567              | 8,543              | 1,341,100 |
| 1935 | 1,290,586              | 36,347             | 1,326,936 |
| 1934 | 1,146,054              | 24,720             | 1,170,784 |

Military movement as well as conscription often compels farmers to give up farming, and inundations and droughts in many places create the fear of food shortage. According to newspaper reports in 1947, the harvest in the North Hopei was forecast at less than 50% of what it used to be and that in Shansi at only 30%. In June 1947, in Awangtung about 60 districts with 5 million inhabitants suffered from inundation. The same disaster befell several districts with a total of 1-1/2 million inhabitants in Kwangsi. Food shortage has been keenly felt in the Northeast and in many other war zones.

Furthermore, disrupted communications make it difficult to transport foodstuffs from producing centres to consumers in other places. The result is that food is very badly distributed and prices differ considerably in different localities. In the past, this country used to have organizations whose work was to adjust the supply and demand of foodstuffs in order to avoid serious price fluctuation. But this system was discarded long ago.

TABLE VII

Difference of Rice Prices in Various Places. <sup>2)</sup>

| Place     | April 21st.  | May 5th.     | June 2nd.    | July 7th.    |
|-----------|--------------|--------------|--------------|--------------|
| Shanghai  | CN\$ 100,000 | CN\$ 110,000 | CN\$ 120,000 | CN\$ 145,000 |
| Hangchow  | 100,000      | 110,000      | 120,000      | 220,000      |
| Chungking | 108,000      | 98,000       | 130,000      | ---          |
| Chungking | 58,000       | 60,000       | 85,000       | 210,000      |
| Poochow   | 170,000      | 209,000      | 500,000      | 450,000      |
| Hangchow  | 165,000      | ---          | 380,000      | ---          |
| Szechwan  | 305,000      | 400,000      | 490,000      | 500,000      |
| Taiyuan   | 300,000      | 502,000      | 1,150,000    | ---          |
| Beiping   | 277,000      | 570,000      | 705,000      | 1,050,000    |

## NOTES:

- 1) Based on the estimates of the Central Agricultural Experiment Institute and Customs' reports.
- 2) from the Financial Weekly.

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Even in places located in the same province prices may be very different. This can be best illustrated by taking Feiping and Kaoyang both in Hopei.

Table VIII

Comparison of Foodstuff Prices in Feiping & Kaoyang <sup>1)</sup>  
(Unit: 1 Chin = 0.606 Kgr.)

| Kind        | Feiping    |          | Kaoyang    |          |
|-------------|------------|----------|------------|----------|
|             | April 1st. | May 1st. | April 1st. | May 1st. |
| White Flour | 1,450      | 3,000    | 1,300      | 1,500    |
| Rice        | 1,100      | 2,300    | 1,100      | 1,500    |
| Millet      | 650        | 1,750 -  | 700        | 930      |
| Edible Oil  | 3,300      | 7,000    | 4,000      | 4,200    |
| Wheat       | 1,100      | 1,800    | 970        | 1,150    |

The fluctuations in the price of goods on account of shortage and bad distribution were accentuated by the continuous currency inflation. The Government carried on its note printing, and in April, the note issue index reached 4,000 times the pre-war volume (see Table I above). Furthermore, idle capital continued to flow to Shanghai; in March and April, it amounted to CN\$1,200 billion <sup>2)</sup>. As the Economic Emergency Measures could not stop or slow down the inflationary tendency, they were ineffective also in settling the economic problems. When idle capital was banished from speculation in gold and greenbacks, the sphere of its activities changed over to the hoarding of rice.

In April 1947, the price of rice rose tremendously, and cases of rice robbery were repeatedly reported in Wuhsi, Shaohsing, Kangohow, Wuhu, Hefei, Chieh'ei, Hsuan-ch'ang, Nanling, F'uchang, Shanghai, Haining, A'uenshan, Chengtu, Sunhsien, Seikiang, Lungch'ang, Tatsu, and other places, among which Wuhu and Wuhsi are famous for their production of rice.

As rice is a fundamental requisite of daily life, the lower the standard of living, the more important is the place which rice occupies on the consumers' budget. Consequently with the sharp soaring of rice prices, the masses suffer the most.

Therefore the Government felt compelled to unfreeze the cost of living index. Wages were increased, and so was the cost of production, which eventually entailed a general rise in commodity prices. As the salary of officials was also readjusted, the Government was obliged to put out new notes, thus still further pushing up the price level. Then came the bad news that the long awaited 500 million US\$ loan had been cancelled. June 23rd, was the Dragon Boat Festival Day; general consumption increased considerably. The Government limited the amount of subsidies to the public utility enterprises, which were compelled to raise their charges. All these factors came in one after another to stimulate the soaring tendency of commodity prices, so that from April 16th, to the beginning of July, the general price level had increased two to three times.

## NOTES:

1) From the "Economic Struggle in the Central Hopei" Chin Yung Jih Pao, May 20th, 1947.

2) cf. Chin Yung Jih Pao, July 4th, 1947.

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TABLE IX

Fluctuation of Commodity Prices Before and  
After the Rice Rush in 1947.  
(Unit: in C.N.C.)

| Name of Commodity        | April 10th. | April 25th. | May 26th. | June 7th. | July 4th. |
|--------------------------|-------------|-------------|-----------|-----------|-----------|
| Rice(Shih Tan)           | 144,000     | 210,000     | 425,000   | 420,000   | 460,000   |
| Flour (Bag)              | 70,000      | 75,000      | 145,000   | 125,000   | 117,000   |
| Rape Seed Oil(Chin)      | 350,000     | 480,000     | 630,000   | 510,000   | 750,000   |
| Cotton(Szu Ma Tan)       | 930,000     | 1,680,000   |           | 1,600,000 | 1,870,000 |
| Bituminous Coal<br>(Ton) | 1,200,000   | 1,200,000   | 1,400,000 | 1,300,000 | 1,800,000 |
| Pig Iron(Ton)            | 5,000,000   | 7,000,000   | 8,000,000 | 7,600,000 | 1,200,000 |
| Steel(100 Chin)          | 3,080,000   | 3,740,000   | 5,720,000 | 6,050,000 | 7,400,000 |
| Cement(Barrel)           | 220,000     | 400,000     | 450,000   | 450,000   | 560,000   |

Comparing the prices of June this year with those of  
one year ago, gold and greenbacks had been multiplied 15 times; rice,  
tung oil and bean oil ten times. Compared with ten years ago (1937), coal  
had increased 90,000 times; rice, cloth and silk about 50,000 times,  
gold 20,000 times, and greenbacks about 12,000 times.

TABLE X

Prices in 1937, June 1946 and June 1947<sup>1)</sup>  
(in CN\$)

| Kind                        | First Half<br>Year of 1937 | June 1946 | June 30, 1947              | Index of<br>Increase<br>During<br>the year | Index of<br>Increase<br>During the<br>10 years |
|-----------------------------|----------------------------|-----------|----------------------------|--|--|
| Rice(Shih Tan)              | 11.2                       | 47,007    | 490,000                    | 10.3                                       | 47,350   |
| Flour (Bag)                 | 4.0                        | 14,633    | 133,000                    | 9.1  | 33,250   |
| Bean Oil (100<br>Shih Chin) | 22.3                       | 62,000    | 740,000                    | 11.9                                       | 33,184   |
| Silk(Szu Ma Tan)            | 674.1                      | 2,097,408 | 32,500,000                 | 15.5                                       | 48,212   |
| Tung Oil(100<br>Shih Chin)  | 46.1                       | 70,000    | 720,000                    | 10.3                                       | 15,618   |
| Serge (Piece)               | 8.9                        | 55,007    | 400,000                    | 7.9  | 49,438   |
| Sugar(100 Shih Chin)        | 16.0                       | 98,000    | 580,000                    | 5.9  | 36,049   |
| Coal (Ton)                  | 21.4                       | 296,007   | 2,050,000                  | 6.9  | 96,001   |
| Gold (Ounce)                | 115.0                      | 191,007   | (3,000,000 <sup>2)</sup> ) | 15.7                                       | 26,087   |
| 1 U.S.\$                    | 3.3                        | 2,587     | (40,000 <sup>2)</sup> )    | 15.5                                       | 12,121   |

## NOTES:

- 1) For the first half of 1937 and June 1946, cf. "The Statistics Semi-Annual Review" published by the Shanghai Municipal Government; for June 30, 1947, cf. market quotations published by Cheng Yen Pao. For the quotations of gold and greenbacks for 1937, cf. the Financial Weekly, and those for 1946, the Statistics Monthly.
- 2) Black market quotations.

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The facts given above show clearly that the fluctuation in commodity prices is mainly due to currency inflation. At present, the domestic value of the Chinese legal tender is only 1/32,000 of the pre-war value, and the external value is only 1/12,000. The seriousness of the situation can no longer be neglected.

We therefore suggest that the efforts of the Government be directed along the following lines:

1. Effort to balance the Budget and to make it public in order to win the confidence of the people;
2. Covering of extraordinary expenditure by extraordinary means, such as special taxes, but not by issuing more notes;
3. Carrying out of planned production and systematic distribution of raw materials and products required and yielded by various production units and the ensuring of reasonable profits to producers;
4. Enforcing a rationing system so as to hold off the extra capital from the too few goods.

( End )

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|----------------|---|---|
| Topic:         | Velocity of Monetary<br>Circulation in China                          | Document no.: 76  |
| Author:        | Hsu Chien-p'ing   | Nature: Translation   |
| Periodical:    | Central Bank of China<br>Monthly<br>(Chung Yang Yin Hang<br>Yueh Pao) | Number of pages: 7  |
| Date of Issue: | Oct. 1947.  | Remarks: Original title<br>is: "Velocity of<br>Monetary Circulation<br>and Loose Capital".<br>Only the first part<br>has been translated. |

VELOCITY OF MONETARY CIRCULATION  
IN CHINA

In normal times the velocity of circulation of money is generally constant. But in times of currency inflation, especially in a period of hyper-inflation, we have to take into account the increasing rate of velocity of the circulation. For when everyone is anticipating an appreciation or a rise of prices two kinds of monetary change are likely to develop. First, the money originally hoarded is set free to buy commodities and services, and this contributes to further raising of prices 1). Secondly, the velocity of circulation is bound to go up. This increase of velocity is equivalent to an increase of the currency actually circulating, and similarly the money set free from hoarding increases the speed of circulation.

The first of these two kinds of monetary change, relative to the money set free from hoarding, should not be overlooked in the beginning of a period of rising prices. But after the prices have continually risen for a certain length of time, it can almost be disregarded, especially when the stage of vicious hyper-inflation is reached. In such a period the money originally hoarded has already been spent on the market and no one cares to hoard money anew. Therefore, although shortly after victory, when thebour psychology prevailed, some hoarding of money may have taken place, we can leave aside the question of money hoarding, when we study the volume of money in actual circulation during the latter part of the war and the post war period.

1) NOTE: For instance, the volume of money is 100 units, 10 units of which are hoarded. Thus, there are only 90 units in actual circulation (assuming that the velocity of circulation is disregarded). Now if the volume of money is increased or inflated by 10 units, resulting in a popular anticipation of a rise of prices, the money originally hoarded will begin to circulate. Apparently the volume of money increases to 110 units from 100 units. But in reality it is equivalent to increase to 110 units from 90 units. Therefore, an increase of the volume of money by 10 units may bring about a rise of 12% instead of 10%.

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But the change in the velocity of circulation is a problem that requires careful study, as it is one of the main reasons why at present, the rate of the rise in prices exceeds that of the increase in the volume of notes issued by the Central Bank.

#### I.- The Present Increase of Velocity of Circulation.

Theory  $P = \frac{MV + M'V'}{T}$  according to the equation of the quantitative theory, the rate of the rise or fall of price P is

equal to that of the increase or decrease of the currency in circulation  $MV + M'V'$  1), if we assume that the volume of trade T is constant, and it inversely corresponds to that of the increase or decrease of the volume of trade, when the amount of currency actually circulating is constant.

Though figures relative to the speed of currency circulation are not available, yet sample statistics relating to the speed of circulation of the deposit currency (the current deposits of different banks) in Shanghai have been made by the Economic Research Bureau of the Central Bank from the data available this year. At present, such statistics have been made out up to, and including, the month of May. From 200 commercial banks both modern and native, 30 banks were chosen at random, to which have been added one provincial bank and one municipal bank, making a total of 32 units. By dividing the monthly total debits of current deposit accounts in these 32 banks by the average of the balances of their current deposit accounts on the 10th, on the 20th and at the end of the month a quotient is obtained which represents the velocity of circulation of the month:

|          |       |
|----------|-------|
| January  | 19.77 |
| February | 24.63 |
| March    | 21.32 |
| April    | 22.57 |
| May      | 33.90 |

The table shows that the velocity of circulation in January this year was low in comparison with the other months. This may be due to the fact that there were less business days in January. The prices rose rapidly in February and circulation accelerated. But in the latter part of the month it was influenced by the Emergency Economic Measures, and slowed down accordingly in March and April. Thereafter, in May the velocity of circulation again increased greatly.

- 1) EDITOR'S NOTE:
- M: Amount of money in circulation.
  - V: Velocity of monetary circulation.
  - M': Amount of deposits.
  - V': Velocity of circulation of deposits.

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If the figures above represent faithfully the velocity of circulation of the deposit money of the commercial banks in Shanghai, it is really appallingly high when we remember that, according to similar statistics for the United States, during the year 1929 when the velocity of circulation was at its peak, the monthly average in New York was only 10.37 1).

Figures concerning individual banks in Shanghai are still more suggestive. We find two of them in which the velocity of circulation reaches the following record:

|          | <u>A Certain Modern Bank</u> | <u>A Certain Native Bank</u> |
|----------|------------------------------|------------------------------|
| January  | 127.7                        | 68.9                         |
| February | 177.5                        | 120.1                        |
| March    | 86.3                         | 69.7                         |
| April    | 78.6                         | 66.4                         |
| May      | 150.4                        | 121.7                        |

The lowest velocity of circulation, as reported in two other banks, also far exceeds the normal:

|          | <u>Bank A.</u> | <u>Bank B.</u> |
|----------|----------------|----------------|
| January  | 8.1            | 10.9           |
| February | 13.5           | 12.9           |
| March    | 8.8            | 11.8           |
| April    | 7.0            | 11.4           |
| May      | 12.3           | 17.1           |

1) NOTE: The yearly velocity of circulation of the deposit currency in the commercial banks in the United States for a period of years is reproduced as follows:

| <u>Year</u> | <u>Whole Country</u> | <u>New York</u> | <u>Year</u> | <u>Whole Country</u> | <u>New York</u> |
|-------------|----------------------|-----------------|-------------|----------------------|-----------------|
| 1919        | 35.0                 | 59.9            | 1931        | 33.2                 | 64.7            |
| 1920        | 35.4                 | 60.0            | 1932        | 27.3                 | 37.6            |
| 1921        | 32.6                 | 54.9            | 1933        | 26.8                 | 34.8            |
| 1922        | 34.2                 | 61.8            | 1934        | 26.3                 | 31.1            |
| 1923        | 34.1                 | 65.5            | 1935        | 24.9                 | 31.1            |
| 1924        | 34.4                 | 66.5            | 1936        | 34.7                 | 32.2            |
| 1925        | 36.4                 | 71.9            | 1937        | 27.7                 | 30.0            |
| 1926        | 37.7                 | 77.8            | 1938        | 21.6                 | 25.7            |
| 1927        | 41.0                 | 85.3            | 1939        | 20.2                 | 22.0            |
| 1928        | 46.8                 | 106.3           | 1940        | 18.5                 | 17.6            |
| 1929        | 53.6                 | 124.4           | 1941        | 19.4                 | 18.0            |
| 1930        | 40.4                 | 77.0            |             |                      |                 |

The specially high speed of circulation in the United States in 1928 and 1929 respectively was due to the frenzied speculation. But when compared with the present speed of circulation in Shanghai, it is far behind.

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|----------|------------------------------|------------------------------|
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| February | 177.5                        | 120.1                        |
| March    | 88.3                         | 69.7                         |
| April    | 78.6                         | 65.4                         |
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| 1920        | 35.4                 | 60.0            | 1932        | 27.3                 | 37.6            |
| 1921        | 32.6                 | 54.9            | 1933        | 26.8                 | 34.8            |
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| 1923        | 34.1                 | 65.5            | 1935        | 24.9                 | 31.1            |
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| 1927        | 41.0                 | 85.3            | 1939        | 20.2                 | 22.0            |
| 1928        | 46.8                 | 106.3           | 1940        | 18.5                 | 17.6            |
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The specially high speed of circulation in the United States in 1928 and 1929 respectively was due to the frenzied speculation. But when compared with the present speed of circulation in Shanghai it is far behind.

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It should be noted however that these statistics cannot be taken as representing the condition of the country as a whole for several reasons:

- 1) The speed of circulation in Shanghai is higher than in any other place, as Shanghai owing to its Stock Exchange is the center of speculation in the country.
- 2) In the above statistics current deposits in the Government banks which are usually several times as much as those in the commercial banks are not included <sup>1)</sup>. Moreover, as the Government banks do not practise the "immediate credit" system which is to be discussed later, the velocity of circulation of current deposits in the Government and the commercial banks combined should be lower than that of the deposit currency in the commercial banks alone.
- 3) Our sample statistics only deal with the deposit money (M<sup>1</sup>) as there is no way to find out the velocity of circulation of currency (M<sup>2</sup>) itself.

#### II.- Influence Exerted by "Immediate Credit".

The acceleration of circulation, is undoubtedly due to the popular attitude of anticipating rises in prices. In Shanghai, bull speculations in shares, gold bars and U.S. notes have been exerting great influence on the speed of circulation.

#### 1) NOTE:

| Year | Month | Volume of Current Deposits<br>in the Govt. Banks of the<br>whole country | Volume of Current<br>Deposits of the<br>commercial Banks<br>of the whole country |
|------|-------|--|--|
|------|-------|--|--|

( Units: CN\$1,000,000,000 )

|   |      |           |         |         |
|---|------|-----------|---------|---------|
| I | 1946 | January   | 605.8   | 71.0    |
|   |      | February  | 683.8   | 77.5    |
|   |      | March     | 717.6   | 105.7   |
|   |      | April     | 1,208.1 | 177.4   |
|   |      | May       | 1,299.0 | 186.5   |
|   |      | June      | 2,436.1 | 212.1   |
|   |      | July      | 3,185.7 | 273.2   |
|   |      | August    | 3,089.2 | 288.2   |
|   |      | September | 3,607.2 | 341.9   |
|   |      | October   | 3,203.0 | 369.4   |
|   |      | November  | 4,421.0 | 431.9   |
|   |      | December  | 5,012.3 | 462.7   |
|   | 1947 | January   | 5,160.3 | 542.0   |
|   |      | February  | 5,017.6 | 678.6   |
|   |      | March     | 5,025.9 | 1,008.8 |
|   |      | April     | 4,984.8 | 1,341.7 |

Deposits in Government banks are based on the statistics of the Joint Head Office of the 4 Government Banks and include those of Central Bank, Bank of China, Bank of Communications, Farmers' Bank and the Postal Remittance and Savings Bank. Deposits in the commercial banks both modern and native are based on the statistics given by the "Auditing Department of the Central Bank".

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It may be said that such an anticipating psychology affects the velocity of circulation in a speculative market to the highest extent and the velocity of circulation of money in the wholesale commodity market in a lesser degree while the money in the hands of the consumers for consumption purposes is comparatively the least affected. Owing to the rapid soaring in prices during and after the war, the speculative market and the wholesale commodities market have found it inconvenient to use cash and use checks instead. Therefore the velocity of circulation of deposit currency must be higher than that of cash (4).

According to the statistics given above, the rate of velocity of circulation of the deposit money in an individual bank in one month exceeds 100 times and that the sample commercial banks combined exceeds 50 times. Such a phenomenon cannot develop in a city where a sound clearing system prevails. For under the clearing system, when a depositor lodges checks with a bank other than the drawee bank or bank of payment, such checks must go through the clearing process which takes place once a day in the clearing house, before credit is given for them. Therefore the monthly velocity of circulation of deposit currency, at any rate cannot exceed the number of working days which is 26 in a month. If it has reached nearly 34 times in Shanghai the cause is to be found in the "immediate credit" system adopted by the banks here as also in Chungking and other large cities.

The so called "immediate credit" system means that credit is given for checks even before they are actually collected. When a depositor of bank A deposits a check drawn by another bank on another bank, the bank A, on the system of immediate credit for such a check, allows him to draw a new check against the face value of the deposited check. In other words, the depositor presents a check drawn by some one else which, before going through the clearing house, becomes at once his current deposit subject to check. Therefore with the "immediate credit" system, the velocity of circulation can be increased to the greatest extent.

Of course, a depositor does not automatically get the privilege of "immediate credit". He has to obtain the permission of the bank and theoretically the bank does not grant this privilege to every depositor. But inasmuch as such a system exists in Shanghai, it would be difficult to attract deposits especially in the case of small sized banks, new established banks and native banks in general, if such a privilege were refused.

Of course, banks of long standing with good business are rather reluctant to give "immediate credit", and the Government banks in particular do not accord such a privilege at all to their depositors.

The influence of the "immediate credit" system on the velocity of circulation can be illustrated by the following comparative table. This table gives, on the one side, the average velocity of circulation of the deposit currency of the commercial banks in Shanghai (as given above) and, on the other side, the average velocity of circulation in the Government banks which do not grant the "immediate credit" privilege.

|          | Average for all banks<br>in Shanghai | 4 Government Banks |
|----------|--------------------------------------|--------------------|
| January  | 19.77                                | 12.03              |
| February | 24.63                                | 12.47              |
| March    | 21.32                                | 12.68              |
| April    | 22.57                                | 13.37              |
| May      | 33.96                                | 18.07              |

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Of course, the existence of the immediate credit system is due to the demand of the market, but the demand, in most cases, does not come from concerns with proper business activities, as on the average the monthly turn over of their capital can hardly be more than 30 times. Thus, in general, such firms do not request immediate credit for their checks. Those who want such a system of "immediate credit" are really speculators buying and selling on a very small margin of profit on the wholesale commodities market and on the Stock Exchange, as the turn over of their capital has to be very fast in order to ensure more substantial gains.

### III.- Velocity of Circulation, Volume of Trade, and the Present Day Prices.

The fact that the rate of the rise in prices exceeds that of the increase in the volume of money can be partly explained by the increase in the velocity of circulation.

For instance, the volume of money before the war, according to a number of authorities, consisted of 1,400 million dollars in bank notes and 1,400 million dollars in current deposits making a total of 2,800 million dollars. Meanwhile, it is estimated that the velocity of circulation of money before the war was 2 times per month. The volume of currency in April this year consisted of 6,970,000 odd million dollars in bank notes and 6,300,000 odd million dollars, about 4,750 times what it was before the war. But the price index in Shanghai for April 1947 was 14,250 times and in Chungking for the same month 5,020 times what it was before the war. If we assume that the average price index of the whole country was 12,000, then the rate of rise in prices will be 2.5 times that of the increase of the volume of money.

In the light of the formula  $P = \frac{MV + M'V'}{T}$ , the excessive rise in price is either due to an increase of the velocity of circulation by 2.5 times supposing no change has occurred in the volume of trade, or to a decrease of the volume of trade by 40% if the velocity of circulation has remained unchanged, or to a slighter decrease of the volume of trade accompanied by a certain increase of the velocity of circulation.

According to common sense, the volume of trade must have decreased, and statistics indicate that the velocity of circulation has increased. But since we have no accurate data in either case, no reliable estimate can be made. If the figures for April are used here as an example it is simply because the volume of note issue up to the end of April has been made known to the public by Minister of Finance Yu. The volume of note issue as stated above is the volume actually issued minus that in the vault of the main and branch offices of the Central Bank. If the above figures are reliable, though the velocity of circulation of  $M + M'$  per month in the whole country has increased in a certain measure it cannot be over 5 times (or equivalent to 2.5 times what is used to be before the war), otherwise the volume of trade  $T$  would have increased, which cannot be accepted according to common experience. On the other hand the volume of trade must not have been reduced by more than 40%, otherwise the velocity of circulation would be even lower than it was before the war, which is not in keeping with the statistics given above.

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Therefore, assuming on the one hand, that the velocity of circulation has increased and on the other that the volume of trade has decreased, assuming at the same time that before the war, the velocity of circulation was 2 and the volume of trade was 1, the relationship between the increase and the decrease of the two factors may be shown as follows:

|                         |   |     |     |     |     |     |
|-------------------------|---|-----|-----|-----|-----|-----|
| Velocity of circulation | 5 | 4.5 | 4.0 | 3.5 | 2.5 | 2.0 |
| Volume of trade         | 1 | 0.8 | 0.8 | 0.7 | 0.5 | 0.4 |

In other words, if there is no change in the volume of trade, the velocity of circulation per month will be 5. If the volume of trade decreases by 1/10, the velocity of circulation will be 4.5. If the volume of trade decreases by 4/10, the velocity of circulation will be 3. If the volume of trade decreases by 5/10, the velocity of circulation will be 2.

However, it must be pointed out that the conclusion that the velocity of circulation cannot be higher than 5 (2.5 times what was before the war) is based on the following four figures:

- 1) The volume of currency before the war, 2,600 million dollars.
- 2) The average velocity of circulation in the whole country per month, which was 2 before the war.
- 3) The present (April) volume of currency, which is 13,500,000 million dollars.
- 4) The present (April) price index number, 12,000 times what was before the war.

Though the first and the second of these figures have frequently been cited by economists, nothing indicates that they are absolutely reliable. The third figure does not include the deposit currency of the Central Trust Corporation and the Cooperative treasuries. As to the fourth figure, it is still more questionable, because we have the price index numbers of only two cities, and any average price index of the whole country based on the figures of only two cities is rather arbitrary; at most, such an average is only an approximation. Moreover, there are at present two kinds of price index numbers, namely the price index number of the basic commodities compiled by the Economic Research Department of the Central Bank and the index number of the wholesale prices by the China Institute of Economics. The former is lower than the latter. For example, with regard to the price index for April 1947 for Shanghai, the former gives 14,252 times and the latter, 22,151 times. The former uses the first half year of 1937 as the basic period, while the latter uses 1936. We use the index numbers of the Central Bank here, because the Central Bank compiles at the same time the index numbers for Chungking, while the China Institute of Economics only prepares index numbers for Shanghai. In view of the above, our conclusion that the monthly average velocity of monetary circulation in the whole of China cannot exceed 5 times, can only be considered as approximate.

However, in comparing this seemingly accurate average velocity of monetary circulation for the whole country with the velocity of circulation of currency deposits in Shanghai, we are led to a sure conclusion: that the commercial banks in Shanghai have been a most effective instrument for holding to increase the volume of effective currency, for stimulating price soaring and for facilitating an inflation and hoarding. Thus it is no wonder that the price level in Shanghai is higher than that in any other place in the country, and that capital from interior China flows to Shanghai, causing the economic depression of the interior.

( End )

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CASH MARGINS ON THE STOCK EXCHANGE:  
IDLE CAPITAL AND BLACK MARKET

Since the introduction on the Shanghai Stock Exchange, on Nov. 14th. 1946, of transactions with deferred delivery, there have been several different rulings concerning the amount of the margin. At first it was fixed at 30% of the total transaction; 10% to be paid in cash and the other 20% in securities quoted on the market. Later, a written guaranty from a bank, modern or native, was accepted in place of the securities; while in the middle of May 1947 the Ministry ruled that the 20% not paid in cash should be covered by U.S. dollar Bonds. This move was unwelcome to the brokers and a compromise was temporarily reached, by which the 20% could be paid in U.S. dollar Bonds or in cash or in both. Finally the Ministries of Finance & Economics, carrying out an order from the Executive Yuan, notified the Security Exchange that from July on the margin was fixed at 50% of the total transaction, payable in cash only.

The object of the following article is to examine the effects on the Stock Exchange of this last reform, now four months in force; and the nature of the troubles it has brought in its train and finally to present some suggestions towards a remedy.

I.- The Experience of the Past Four Months.

During these months the outlook has remained dark, while there has been a great increase in commodity prices, the situation has been gradually becoming more grave, and security quotations, against general expectation, have shown a singular tendency towards depression. Calculating from the first week of July as the basic period, the commodity price index of the 3rd. week in October was 238%, a rise of nearly 150% while the security quotation index reached 122.4%, a rise of 25% only (see Table I below). Thus there is no longer any correlation between these indices.

TABLE I

Stock Quotation and Commodity Price Indices

| <u>Period</u>  | <u>Index of<br/>Commodity Prices</u> | <u>Index of<br/>Stock Quotations</u> |
|----------------|--------------------------------------|--------------------------------------|
| July 1947      |                                      |                                      |
| 1st. week      | 100.0                                | 100.0                                |
| 2nd. "         | 101.6                                | 118.6                                |
| 3rd. "         | 103.8                                | 106.9                                |
| 4th. "         | 103.3                                | 88.1                                 |
| 5th. "         | 104.8                                | 88.7                                 |
| August 1947    |                                      |                                      |
| 1st. week      |                                      |                                      |
| 2nd. "         | 104.4                                | 85.9                                 |
| 3rd. "         | 102.3                                | 81.1                                 |
| 4th. "         | 109.6                                | 94.6                                 |
|                | 110.0                                | 93.6                                 |
| September 1947 |                                      |                                      |
| 1st. week      | 121.8                                | 94.2                                 |
| 2nd. "         | 129                                  | 90.7                                 |
| 3rd. "         | 137                                  | 86.2                                 |
| 4th. "         | 148                                  | 97.2                                 |
| October 1947   |                                      |                                      |
| 1st. week      | 164                                  | 99.9                                 |
| 2nd. "         | 196                                  | 111.7                                |
| 3rd. "         | 239                                  | 122.4                                |

A study of the total volume of business transacted in the Stock Exchange, the debit balances of inventory accounts and the amount of the cash margin, will reflect the prosperity or depression of the security market.

TABLE II

Volume of Business Transacted, Debit Balances of Inventory Accounts and Amount of Cash Margin

(Daily Averages. Unit: CN\$1,000,000,000)

| <u>Period</u> | <u>Volume of<br/>Business Transacted</u> |                    | <u>Debit<br/>Balances</u> | <u>Cash<br/>Margin</u> |
|---------------|--|--------------------|---------------------------|------------------------|
|               | <u>Total</u>                             | <u>Daily aver.</u> | <u>Daily Aver.</u>        | <u>Daily aver.</u>     |
| 1946:         |  |                    |                           |                        |
| Nov.          | 180.0                                    | 6.9                | --                        | 1.82                   |
| Dec.          | 276.6                                    | 10.6               | 4.88                      | 2.58                   |
| 1947:         |  |                    |                           |                        |
| Jan.          | 238.5                                    | 9.6                | 6.19                      | 3.23                   |
| Feb.          | 990.9                                    | 41.3               | 20.40                     | 10.25                  |
| Mar.          | 1.952                                    | 78.2               | 48.29                     | 24.75                  |
| Apr.          | 3.404                                    | 130.8              | 126.09                    | 41.04                  |
| May           | 4.717                                    | 174.7              | 126.44                    | 65.28                  |
| Jun.          | 2.719                                    | 118.2              | 91.03                     | 35.07                  |
| Jul.          | 2.823                                    | 112.2              | 56.14                     | 29.66                  |
| Aug.          | 2.055                                    | 82.3               | 38.64                     | 20.36                  |
| Sep.          | 2.423                                    | 93.1               | 32.86                     | 17.17                  |

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Then, using June 1947 as basic period, let us ascertain the recent amounts and fluctuations of transactions with deferred delivery and corresponding debit balances:

TABLE III  
Volume of Deferred Transactions and  
Corresponding Debit Balances

| Period | Deferred Transactions<br>Index | Debit Balances<br>Index |
|--------|--------------------------------|-------------------------|
| 1947:  |                                |                         |
| Jun.   | 100.0                          | 100.00                  |
| Jul.   | 91.7                           | 58.73                   |
| Aug.   | 61.7                           | 39.43                   |
| Sep.   | 66.8                           | 33.08                   |
| Oct.   | 80.0                           | 34.6                    |

II. - Absorption of Idle Capital & Stabilisation  
of Commodity Prices.

The original aim of the Government in ordering the formation of the Stock Exchange was to absorb idle capital, to stabilise commodity prices and to increase revenue. Our study shows that the increase of the cash margin has made the realisation of this aim impossible. After the coming into force of the Emergency Economic Measures, in February 1947, idle capital flowed into the security market, bringing it to an unprecedented boom which attracted public attention. Some feared that this prosperity of the security market would react on commodity prices and therefore asked the Government to strengthen its control on the Exchange, forgetting that a security market is purely competitive. Unlike the commodity market and the gold bar and U.S. note market, where control is difficult, in the security market an order from the Government can easily produce either a negative or a positive effect. The 50% cash margin requirement was certainly aimed at preventing speculation and absorbing idle capital, with a view to loosening its effect on commodity prices, but to judge from the last four months it merely led to increased speculation on securities in the black market. Idle capital withdrew from the regular security exchange and commodity prices rose even more rapidly, on account of the inflation.

The security market, as we have said, performs the function of absorbing floating funds, whose volume may be gauged by the amount of the cash margin received each day on the security exchange. According to the statistics, in May, when the cash margin required was only 10%, the average cash margin daily realised by the exchange amounted to more than 65,000 million dollars. But when the cash margin requirement was increased to 50% the amount of cash margin collected dropped rapidly. In July the average daily cash margin receipts were 29,000 million odd dollars, a decrease of more than 50%. This decrease continued through the next three months, though commodity prices registered the highest level of the year in September and October the volume of security transactions showed little increase and the cash margin receipts dropped almost to the level it had held before the Emergency Economic Measures were enforced in March 1947. This shows that the increase of the cash margin from 10% to 50%, far from absorbing a greater amount of idle capital has in fact lessened the receipts from cash margin.

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In another article we analysed the effect of security prices on commodity prices over a period of years, concluding that the basic cause of the rise in commodity prices is unbridled inflation. Unless inflation ends there is no way of limiting the rise of prices. To maintain that commodity prices can be stabilised merely by forbidding speculation and restricting the rise of security prices is to apply the wrong remedy, with detrimental results. Our analysis shows no example of a rise in commodity prices being due to a rise in security prices; the facts witness that on several occasions the rise in commodity prices has stimulated a rise in security prices. According to the statistics, from the first week in September to the end of the third week in October commodity prices rose 200% while security prices remained far behind, with a rise of only a little more than 20%.

### III.- Stock Quotations and the Real Value of Assets.

It may be asked whether the present inertia of security prices is not merely a reaction from their former abnormal rise. To gauge whether the rise in security prices is abnormal or excessive, it should be compared with the real value of the assets of the issuing company and its condition of profit or loss. In a period of currency inflation the value of the assets of a factory increases daily. At the moment we have no reliable detailed estimate but from available data it is safe to say in general that the prices of securities sold on the Exchange have not exceeded the real value of the assets of the issuing companies. For instance the quotation of the highest security registered, the Wing On Cotton Mill, has risen by 20 times since the opening of the Exchange last year, while its assets amount to about HK\$2,200,000,000 and on the basis of 6,000 million shares, each share should be worth about \$370. Calculating the value of the shares in terms of U.S. dollars at black market rate, when the exchange opened last year Wing On Cotton Mill had a value of U.S.\$0.0054, on the basis of recapitalisation. This was estimated as being close to the real value. Its value lately has been U.S.\$0.0038, or about 70% of the price when business opened last year. The quotations for Wing On Cotton Mill show the highest rise in terms of legal tender, but compared with the rise in price of either gold bars or U.S. notes it still lags behind; therefore the rise in the quotations for other shares must be still further behind.

If the market quotation of the shares does not exceed their real value, as we are assuming, the fact that the rapid rise in commodities prices has failed to stimulate the price of securities can only be explained by the withdrawal of idle capital from the security market, after the increase of the cash margin in July, and the resulting increase in the activity of the outside black market.

### IV.- Predominance of Bearish Activity on the Black Market.

As the activity of the outside black market can only affect the value of shares on the Exchange, there is still need to explain the decline in quotations of stock. For several months the predominance of a bearish trend has made any improvement in the price of shares impossible, and it is difficult for the bulls to be active, since they are practically helpless outside the Exchange, where they may fail at any time and must

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proceed with great caution. If the cash margin rises too high the bulls within the Exchange, if their capital is not large, find themselves in difficulties and may be forced over into a bearish trend. The price of securities cannot rise while the buyer market is in a state of collapse.

At present the main difference between the two markets is that in the commodity market only bulls can be active, while in the security market one can not only buy long but also sell short, so that bearish speculation is possible. It is especially profitable to sell short outside the Exchange, for the following reasons:-

- 1) No capital is needed, as the cash margin is at most 20% to 30%, and even this need not be paid if one knows the owner.
- 2) If for instance Wing On Cotton Mill is used as the object of direct trading, the unit for trading is not fixed but may vary from twenty thousand shares to more than 10 million.
- 3) There is no fixed date of delivery; transactions can be closed at any time or delivery may be postponed indefinitely.
- 4) A bear receives interest, while the bull has to pay it. If the quotation drops the bear receives not only interest but also the difference in price.

A concrete example may make these advantages clearer. Suppose that on Oct. 15th, A. sold 100,000 shares of Wing On Cotton Mill at \$320 and received an interest of 25% or 25% of a dollar; and B. bought the same number of shares at the same price, paying an interest of 30%. We may calculate their respective profit and loss in three different cases: a declining, a stable and a rising quotation.

- a) In the black market interest is calculated on the closing quotation of the Wing On Cotton Mill for spot transactions in the forenoon on the Exchange. Price difference is calculated on the closing quotation for spot transactions in the afternoon. If on Oct. 15th the forenoon closing quotation was \$320 and the afternoon \$300, the respective profit and loss of A & B on the first day would be as follows:

$$1) \text{ A's profit from interest} = 32,000,000 \times 25\% \div 30 = 267,000.$$

$$\text{A's income from price difference} = 32,000,000 - 30,000,000 = 2,000,000.$$

$$\text{A's total profit (with no cost incurred)} = 2,267,000.$$

$$ii) \text{ B's loss on interest} = 32,000,000 \times 30\% \div 30 = 320,000.$$

$$\text{B's loss on price difference} = 32,000,000 - 30,000,000 = 2,000,000.$$

$$\text{B's total loss} = 2,320,000.$$

If the quotation continues to decline, bears will make a very considerable profit: but the longer their profit the more difficult it is for the security prices to improve.

- b) If the quotation remained stable and interest outside the exchange remained constant, which in fact never happens, there would be no question of difference in price but A would receive about \$8,000,000 a month in interest and B would have to pay interest of about \$9,000,000 per month.

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- c) If at the end of a month, the transaction not yet being closed, the quotation of Wing On Cotton Mill rose from \$220 to \$400, A might not suffer any loss; since his interest of 6 to 8 million dollars would cover his loss on the difference in price. But B would risk heavy loss since although he gains \$80 per share from the difference in price, he has to pay interest varying from 8 to more than 9 million dollars.

The example just worked out makes clear that the basic advantage in such transactions lies with the bear, who can take advantage of every opportunity to sell short. As long as there is no steady rise in quotations direct trading in the black market is far more favourable to bears than to bulls. The Stock Exchange has thus to face the fact that it is almost impossible to strengthen or improve its security prices as long as the black market continues to exist. This is a great obstacle to the development of the capital market, since it discourages regular investors and those who buy securities in order to maintain the purchasing power of their money.

All this explains why since the increase of the cash margin, selling activity in the black market has contributed to the depression of security prices. Not only has such activity increased from day to day but even on the Exchange it has become more profitable to sell short than to buy long. The 50% cash margin is the same to both bull and bear, but its actual effect on each is different, since the bear has in hand a certain quantity of spot goods which can be used for immediate transfer while the bull cannot use securities in lieu of cash payment but must deposit the 50% cash margin. In passing the law requiring this 50% cash margin, legislators were not actuated by any bias in favour of bears, yet in actual effect it lays a much heavier burden on the bulls.

#### V.- Radical Change Needed.

The above analysis points to the necessity of a reform of the trade in securities to bring it into line with the present economic situation; and given the importance of maintaining the Stock Exchange, to the necessity of keeping up active business in order to absorb idle capital. If these objects are to be realised it is important that the following two points should be brought out:

- 1) The question of the cash margin for deferred delivery transactions should be reconsidered;
- 2) Direct trading outside the Exchange should be stopped and all trade brought within the Exchange.

There is nothing to prevent both these points being carried out simultaneously, but from an economic standpoint the former is simpler and more effective. If the cash margin can be reduced to bring it into line with present needs, or if some elastic measure is adopted, giving the heads and the supervisors of the Shanghai Exchange power to adjust the cash margin to the needs of the moment, we believe that not only will trade within the Exchange resume its activity and draw idle capital back there; but also the trading outside will be directed back into the Exchange.

It may be objected that any reduction of the cash margin will tend, as it did in 1921, to the encouragement of speculation and finally to a collapse of the trust companies and the Exchange. Naturally this is quite against the desire of the Government. As we have said, the cash margin must have elasticity, being

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adjusted to the needs of the changing situation. 1921 is not an exact analogy and its collapse need not be repeated. In that year there were more than 140 exchanges in Shanghai alone, with neither a centralised control nor any uniformity of method; while now the organisation is uniform and control is comparatively easy. Secondly, in 1921 the trading was in unsound and unqualified shares, while today shares are subject to strict examination before they can come on exchange. Thirdly the exchanges of 1921 lacked the support of large amounts of idle capital and so finally came to a collapse; while the present exchange is surrounded by a steady flow of floating funds, so that it is even threatened with an inundation.

The policy with regard to the Exchange needs a radical change to meet the changed situation and we need not fear a repetition of the 1921 depression. The first and most urgent step is to reconsider the question of the cash margin for delayed delivery.

( End )

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U N I V E R S I T E L A U R O R E

- S h a n g h a i -

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The Draft for a New Commercial  
Registration Law

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Articles digested and combined  
in this study.

"Opinions on the Projected Commercial Registration Law", Editorial, Shen Pao (Shanghai), Oct. 1st, 1947.  
"A Second Discussion on the Projected Commercial Registration Law", Editorial, Shen Pao (Shanghai), Oct. 7th, 1947.  
"Essential Points of the New Draft of the Commercial Registration Law", Information, Ta Kung Pao (Shanghai), Oct. 14th, 1947.  
"Views on the Project of the Commercial Registration Law", by Ch'ien Jen-lin, the Lih Hsin Monthly, Oct. 15th, 1947.  
"Draft of the Commercial Registration Law", the Lih Hsin Monthly, Oct. 15th, 1947.

THE DRAFT FOR A NEW COMMERCIAL  
REGISTRATION LAW 1)

The fact that it is already more than ten years since the promulgation of the Commercial Registration Law actually in force (June 28th, 1937) 2), makes it clear that many of the provisions should be revised in order to cope with the changing circumstances. It is therefore gratifying to learn that the Ministry of Economic Affairs has recently published a projected revision of the Commercial Registration Law and invited all concerned to air their opinions and suggestions. It has been reported that before being made public this new draft had been given a careful joint examination by the Ministries of Economic Affairs, Finance, Social Affairs and Judicial Administration and that consent and appreciation were unanimously expressed. Indeed the Draft actually combines all the detailed provisions of the present Law and Application Rules and furthermore contains many improvements. The innovation of the Chapter on commercial businesses operated by foreigners, especially, answers an urgent need of the times.

EDITOR'S NOTES:

- 1) For a full translation of the draft of the Commercial Registration Law, see Annex XXVI of this Bulletin.
- 2) The Application Rules were promulgated on May 19th, 1938.

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Nevertheless, an attentive reading of the whole text of the draft indicates that its clauses still contain a good number of inconsistencies and faults of which the main ones will be discussed below.

#### 1.- On the Compulsory Registration System.

A free registration system was originally adopted in Chinese legislation. This may be observed from the fact that the Commercial Registration Law does not contain any provision which can serve as a basis for the setting up of compulsory registration. The system of compulsion which is now being imposed, took effect from an ordinance issued by the Ministry of Economic Affairs in the year 1943. Whether this changing of the law by a simple ordinance is legal, is greatly in doubt. Now the new draft clearly introduces the compulsory system and thus leaves the above legislative deficiency.

Since the main purpose of commercial registration is, however, to protect the right of trade names, it should be the affair of the merchants themselves to decide whether they need such protection or not. Since the registration is now obligatory with all its prescribed time limits and penalties, instead of contributing to the welfare of the business men, it may become a nuisance to them.

When explaining the new draft, the government authorities claim that the compulsory system will enable the Government to exert a reasonable control over all commercial businesses and to lead them along lines of normal development. Here we must ask whether registration is indispensable to Government control and the normal development of commerce, or whether without registration the above purposes can be served equally well. As we know, the means of government control at the present moment are simply the establishing of ceiling and arbitrary prices, and the suppression of speculation and hoarding. It is clear that any order concerning such controls is meant for all merchants, i.e. both registered and non-registered firms will equally be made to obey, and registration has therefore very little to do with the enforcement of controlling measures.

Some may think that unless commercial businesses are obliged to register, the Government have no real insight into the conditions of commercial circles, and as a result will find it difficult to formulate measures compatible with actual circumstances. In other words if they promote compulsory registration, it is for the purpose of procuring statistical data concerning commerce which will serve as reference materials for policy making. This seems to be a good idea. But it must be remembered that the average merchants dislike compulsion and adopt a supine attitude towards all obnoxious legal procedure. Not even strict enforcement and rigid compulsion under penalty could drag many of them into doing anything. Let us illustrate this with a few instances. According to the law, business firms of any trade are under strict obligation to join their own trade association, failing which penalties will be inflicted. Yet if we look around we may marvel at the great number of business firms which simply ignore this rule. In an analogous manner, the law imperatively demands that all workmen should join their industrial guild. Yet, many workmen still obstinately keep away from any such association. Finally, let us consider the effectiveness of the Economic Ministry's ordinance of 1932, making commercial registration obligatory. When in 1945 this compulsory system was first put into practice in Shanghai, the city was systematically divided into several sectors in order to facilitate its enforcement and a time limit was prescribed for the completion of registration by all commercial businesses. Time and again business men were exhorted to collaborate with the authorities and reminded of the imperativeness of the provision. Two years

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have elapsed, the time limit has been prolonged again and again, but up to the present, only about sixty thousand commercial firms in Shanghai have registered. In other places and especially in districts in the interior the Ministry's ordinance has gone largely unheeded. Even the district governments themselves which are in charge of carrying out compulsory registration, are preoccupied with other matters far more urgent and important and find little time to see to its enforcement. It may therefore be seen how it seems to be a mere dream that government authorities should secure complete and thorough commercial statistics through the practice of compulsory registration.

In view of the above, instead of burdening the merchants with all the troubles and penalties of a compulsory registration in a rather unsuccessful attempt to facilitate administration, government authorities will be much wiser if they themselves engage in some research work and compiling of statistical data. In this connection, the following case may be advanced as a good example to be followed by government authorities. In 1940, several institutions in Shanghai grouped themselves together to sponsor a general investigation of labour conditions. For that purpose printed forms were sent to various factories and qualified persons sent to explain how to fill them in. Nearly the whole work was done by the sponsors who tried to give the factories as little trouble as possible and thereby won their hearty collaboration. All that the factories requested to do was to state the facts. Later the sponsors sent people to collect the forms, on which they based their statistics and from which they drew their conclusions. It is said that the results thus attained were very satisfactory.

#### II.- Problems Arising from the Use of the Same or Similar Trade Names.

##### 1. The use of the same or similar trade names in different districts or municipalities.

According to the present Commercial Registration Law, with the exception of company organizations which have the exclusive right of using their trade name throughout the country, all individual ownerships or partnerships can monopolize their trade name only within their own district or municipality. The same idea is maintained in the following clauses of the new Draft: "No commercial business shall use a name identical with or similar to that of another commercial business already registered, in the same municipality or district, and engaged in the same type of business" (Article 21, 1st paragraph); and "When a registered commercial business or Company founds a branch store or Company in another municipality or district, if in that municipality or district there exists another store or Company which bears the same or a similar name and operates the same type of business, except where the provisions of Article 20 1) apply, the name

1) **ARTICLE'S ADDITION:** Full text of Art. 20 of the Draft reads: "If a commercial business which has already been registered in accordance with this Law, reorganizes itself into a Company, and if it has been using its registered name continuously and without interruption within a municipality or district for more than ten years, counting from the date of registration, then the restriction imposed by Article 20 of the Company Law shall not apply; but neither the principal nor the branch office of the Company shall move outside the municipality where it was originally located, unless its name is first changed".

The Company Law mentioned in the above provision was promulgated on the 12th of April 1940 and in Art. 20 lays down: "Companies engaged in the same type of business, no matter whether or not they are of the same class or whether or not they are within the same province or municipality or locality, shall not use the same or similar names".

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of the branch store or Company shall be preceded by the name of the place where the principal store or Company is located, and words shall be added, to make clear that it is a store or Company" (Article 28). Nevertheless to our surprise we find the following wording in the first paragraph of Article 22 of the same Draft: "If a name the same as or similar to that of another commercial business already registered, is used for illegitimate competition, whether in the same municipality or district or not, the persons interested may request the competent authority to prohibit its use; if they have sustained any damage therefrom, they may further ask for damages". The contradiction between this provision and the others cited above, is evident. Therefore unless the traditional legislative principle is to be changed, this clause of Article 22 should be cancelled.

2. Applications for registering the same name or similar names for several firms.

When several commercial firms apply for registration of the same trade name or similar trade names, the following two solutions are both reasonable and either of them may be accepted: to grant approval to the applicant who first used the name, or to the one who first sends in an application. Regarding this problem, the 1st paragraph of Article 24 lays down: "If within one year after the enforcement of this Law several commercial businesses founded before its enforcement make separate application to the competent authority of the same municipality or district for the registration of the same name or of similar names; then the one whose use of the name within the municipality or district was earliest and has been uninterrupted, shall be allowed to register it. If before the application (the name) had never been used by any one of them, or if it cannot be proved who was the first to use it, then the one who first sends in an application, shall be allowed to register it..." Since the Draft gives preference to the 'earliest user' and the so-called 'separate application' used in the above provision presumably means that applications were submitted on different dates, one question remains to be answered: Suppose that within one year after the enforcement of the Law a commercial firm founded before its enforcement, applies for registering a trade name, and the competent authority not being cognizant that there exists in the same municipality or district, another firm also founded before the enforcement of the Law and which used the same or a similar name earlier than the first applicant, allows him to register. If later, but also within one year after the enforcement of the Law, the actual 'earliest user' of the same or of a similar name, submits documentary evidence proving that he really first used it and applies for registration, will the competent authority cancel the first registration and allow this second applicant to register? A clear decision regarding this case should be inserted into the revision leaving no room for future doubts and disputes.

Article 26 of the Draft lays down that if several commercial businesses, founded after the enforcement of this Law, all apply on the same day for the registration of the same or similar names with the competent authority of the same municipality or district, they shall be ordered to reach a mutual agreement to let one of the commercial businesses use it, and then only shall the registration be allowed. As it often happens that in such a case none of the applicants is willing to yield, thus making all agreement impossible, it would be wiser to give preference as in the other instances cited above to the one whose use of the name was earliest.

Concerning the period of the use of a trade name by an applicant, the following provisions of the Draft are rather inconsistent with each other: In Art. 23, it is laid down that if one firm has used a name continuously for TWO YEARS before the

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enforcement of the law, but subsequently to such use the same or a similar name has already been registered by another commercial firm doing the same type of business, then the firm shall, in registering its name, add a distinguishing mark. On the other hand, the 2nd paragraph of art. 24 runs: "If the various commercial businesses which separately apply for registration as mentioned in the preceding paragraph, have all been using the name or names for more than THREE YEARS without interruption, they shall all be allowed to register; but each shall add a distinguishing mark." Since the two provisions deal with a similar case, it seems that the period provided in the 2nd paragraph of art. 24 should also be reduced to two years only.

III.- Restrictions on registration.

According to Article 6 of the Rules governing the application of the Commercial registration Law, commercial business as referred to in the Law must not be against public order or good morals. In other words, provided a commercial business neither disturbs social order nor perverts customs and usages - which condition is rather vague, and provided it further carries out all the required procedure, it will readily be allowed to register. It may therefore be said that in practice there is very little restriction on registration. The new Draft pays no attention to restrictions on registration either. However when we study the actual circumstances nowadays, we cannot but be convinced that a certain degree of limitation is indispensable in some particular cases. For, as we are all aware, what actually induces registration is not at all legal compulsion, but the temptation of good profits. When in a peculiar type of business applicants for registration suddenly increase, we may be very sure that it is either because that particular business has become unusually lucrative or because the Government has announced that goods are going to be allocated to business firms of that category. Take for instance the case of rice shops in Shanghai: their number is now over four thousand. The competent authorities of the city frown at this excessive number of rice merchants and are anxious to restrict the founding of new rice shops. Yet when new applicants fulfil the too easy conditions prescribed by the law, on what clause can the authority base a refusal?

Other examples are more scandalous: There exist at the present hour many undesirable firms solely engaged in speculation or cheating. Among others there are unnecessary enterprises which undertake to manufacture luxury articles, and instruments of gambling. When these businesses apply for registration in full conformity with the Law, no objection can be raised by the registering office. We may therefore come to the conclusion that if government authorities want to ensure a more normal development of trade, they should do it by laying down certain lawful restrictions on commercial registration, but not through indiscriminate and unrestrictive compulsory registration whose shortcomings have already been stated above.

IV.- Some Practical Suggestions for Improving the Application of the Law.

1. Simplifying of registration procedure.

Apart from the above inconsistencies and faults contained in the new Draft of the Law, which ought to be rectified, some small suggestions may be put forward with a view to smoothing the way for a successful application of the law.

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Nowadays when government administration is slow and troublesome, efforts should be made to simplify as much as possible all procedures for registration. It is especially desirable to avoid unnecessary repetitions. For instance, when a Company has been registered according to the Company Law, since its trade name has already been well established, and is entitled to legal protection, it should be exempted from further applying for a commercial registration. The same exemption should be granted when any firm has secured protection for its right of trade name according to other laws or ordinances. Thus, when a pawnshop has registered and obtained its licence in conformity with the proper regulations, it should not be asked to register again. Also, to save the time of the merchants, once the commercial registration has been completed, instead of asking them twice for the statement of the same facts, all taxing offices should get into contact with the commercial registering authority and require copies of its records.

#### 2. Classification of different types of business.

In laying down what the term "commercial business" refers to, the new Draft gives up the old system of enumerating different trades, but following the suit of the Company Law, confines itself to giving a simple definition. "A commercial business" as mentioned in this Law shall refer to all enterprises operated for the purpose of making profits, but shall not include specialised professions of a technical nature (Article 1). When we go on to Article 21 - 1st paragraph, "no commercial business shall use a name identical with or similar to that of another commercial business already registered in the same municipality or district and engaged in the same type of business", we may press a perplexing question: what is to be considered as the same type of business, and what is not? or in other words, how are we to classify and demarcate various types of business? For instance, it seems natural that transactions in chemical raw materials are the business solely of merchants of chemical raw materials. Yet pharmacies and dyestuff shops often concurrently deal in such goods. If you say that these two kinds of shops are engaged in the same type of business as merchants of chemical raw materials, they will argue that they do not deal in the same goods and that they belong to quite different guilds. So, they cannot be accused even if under the pretext of doing another line of business, they actually engage in the same transactions as another registered shop whose trade name has been stolen by them. Unless a clear classification and demarcation of the different types of business is made the application of the Law will be greatly hampered. Nevertheless, in view of the varied conditions in different sectors of the country, a uniform classification is by no means commendable. It will be better to confide the task to the various local competent authorities who will base their decision upon local actual circumstances and submit it to the Ministry of Economic Affairs for confirmation.

#### 3. Founding of more offices for registration.

The new Draft follows the Law actually in force in providing that the competent authority for commercial registration shall be the district government in a district and the municipal government in a municipality. In the case of a municipality which does not cover a very wide area, where commercial firms are concentrated and communication facilities are numerous, it is not too inconvenient to come and go several times in making arrangements for registration. The case of a district is entirely different: apart from its small city, it easily stretches to hundreds of miles, shops are usually scattered in all sectors and transportation facilities are lacking; if the registration must be made with the

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district government, the merchants will have to travel for days before they can arrive at the centre, and the aggregate sum of all the travelling fares in daytime, and expenses of lodging in inns at night will be several times higher than the registration fees. In order to avoid such inconvenience, the municipal government should be allowed to entrust the work of registering to sub-district authorities.

#### 4. Services to facilitate registration.

At first sight, all the details of procedure of commercial registration including filling blanks of various forms, securing the certificate, paying fees, etc., appear to be quite simple and easy. But people who are not familiar with the law and who are not accustomed to fill in forms, may be at a loss as to what to do first and how to do it correctly. Even in a great commercial city like Shanghai, where merchants are supposed to be of better than average commercial education, they often have to pay specialists to carry out the registration procedure for them. Knowing this, the Bureau of Social Affairs has issued measures allowing guilds to undertake to register on behalf of their members. Similar steps may be taken by other district or municipal governments. It would be especially helpful if information and writing services could be set up inside every registering office to give all necessary guidance and to fill in forms on behalf of applicants against the charging of a small fee.

#### 5. Cancellation of the time limit for completing the commercial registration.

Let us finally consider the time limit set down by the Draft for completing commercial registration. Article 41 provides that all commercial businesses which had not been registered before the enforcement of the Law, shall within one year after its enforcement apply for registration of establishment according to the provisions of the Law. This prescribed time limit is evidently too short. For as has already been mentioned although compulsory registration has been in force in Shanghai for two years, an optimistic estimate places the percentage of commercial firms registered in the city at only about 60%. What about the great number of districts covering more extensive areas? Furthermore, once a time limit has been laid down in the Law, it becomes an imperative provision. If commercial firms are still not registered at its expiration, they will become illegal. The various local competent authorities will be no less responsible, since they have not made enough exertion to enforce the Law. It would therefore be better not to set down any time limit in the Law itself for the completion of all commercial registrations, but to leave this to the discretion of the various local administrations.

( End )

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U N I V E R S I T Y L ' A U R O R A

- S h a n g h a i -

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Chinese Reactions to the Reopening of  
Private Trade with Japan.

STUDY NO. XIII  
Number of pages: 11

Articles and reports digested and combined  
in this Study:

- "Reopening of Japanese trade vis-a-vis China's economy",  
Ta Kung Pao Editorial, June 21, 1947.
- "Statistics on Sino-Jap barter since 1946", Ta Kung Pao,  
July 2, 1947.
- "On the reopening of private trade with Japan", by Shou  
Ch'in-wen, New China Magazine, August 1, 1947.
- "Reopening of Japanese trade and China", by Hsueh Shuang-  
chiu, Sin Wen Pao, August 8, 1947.
- "Opinions on the project relative to the reopening of  
private trade with Japan", by Chu Sau-huang, Bankers'  
Weekly, August 22, 1947.
- "The Taiwan-Japan trade previewed", by Chang Jen-fei,  
Ta Kung Pao, August 27, 1947.
- "Our view of reopening Japan's private trade", by K'ang  
Yung-jen, Century Review, August 30, 1947.
- "A thorough examination of the Sino-Japanese trade problems",  
by Liu Lin-chai, The Economics Weekly, September 25, 1947.
- "Taiwan-Japan trade project, by Chan Sha-chou, Chin Yung  
Jih Pao, September 28, 1947.

(Continued in the note on page 7 )

CHINESE REACTIONS TO THE REOPENING OF PRIVATE TRADE  
WITH JAPAN

The announcement of General MacArthur on the  
reopening of private trade with Japan has been received with strong  
opposition in Chinese industrial and business circles. From their  
standpoint the General's unilateral declaration not only lacks  
maturity but is inappropriate, since many problems concerning the  
Japanese war reparations and the convention for the Peace Treaty are  
still being vehemently discussed among the Allies.

The reaction of the Chinese Government has been  
less definite. On the one hand the Government has voiced its  
agreement with MacArthur's declaration and on the other it appears  
to be leaving the entire matter to the choice of the people.  
Meanwhile official circles are inclined to consider the reopening  
of private trade as an opportunity for price stabilization in China  
by providing the country with a large amount of commodities.

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As far as the Chinese people at large are concerned they object to the plan for reasons more political than economic. The argument is always the same, however it may be dressed up: it is feared that China will soon become the easy prey of Japanese products even on her own markets. This view is widely held throughout the whole nation and especially by such powerful organisations as the National Industrial Federation, the Native Manufacturers Union, the Mechanical Industrial Union and the Shanghai Chamber of Commerce; so much so that the equivocal policy of the Government has been strongly criticised even by high ranking members of the Control Yuan, of the People's Political Council and of the National Economic Council.

Meanwhile barter transactions between China and Japan 1) channelled through SCAP have been current since 1946 and projects are already laid out on the same lines for a year to come.

#### I.- Progress of Government Action.

On July 31 this year, before the Central Political Meeting, the Kuomintang Party approved three principles relative to the reopening of private trade with Japan, namely:

- i) A Trade Mission to Japan, pending approbation from the Executive Yuan, should leave the country before the 15th. of August;
- ii) Types of commodity for trade with Japan should be strictly specified;
- iii) Articles pertaining to Japanese war reparations should not be regarded as goods for trading purposes.

Similar principles were also approved before the National Affairs Meeting which took place on August 1st.:

- i) (the same as above)
- ii) The varieties and volumes of imports and exports in the future trade with Japan should be carefully chosen and examined so that they would have a favourable influence on Chinese economy 2);
- iii) Articles and goods required for China should be provided as far as possible through war reparations.

Following the decision taken by the National Affairs Meeting, the Ministry of Economic Affairs was ordered to create a "Committee for Directing Private Trade with Japan" which was inaugurated on August 13th. in Nanking. Members of this Committee, presided over by the Minister of Economic Affairs, are Government representatives from the Ministries of Foreign Affairs, of Communications and of Finance, as well as of the National Resources Commission, the National Economic Council and the Central Trust Corporation. Four consultants are also designated to the Committee two of whom are Government members representing the Export Promotion Board and the Import Control Board respectively while the other two represent the National Federation of Chambers of Commerce and the National Industrial Federation.

1) See Appendix I.

2) See Appendix II. Articles temporarily authorized for trade between China and Japan.

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The number of delegates in the Trade Mission has also been fixed: five for the Central Trust Corporation, two for the overseas trading associations and thirteen for other private trading organizations. They were in principle to leave for Japan in turn for a period of twenty one days each.

After these preparations, the Government asked for the submission of a list of delegates during the following ten days, beginning August 22nd. But not a single one has yet been proposed by commercial and industrial circles. In order to break this negative attitude, the Ministry of Economic Affairs made a strong statement stressing that the reopening of private trade with Japan would be strictly limited to articles of first necessity to China and that in any case imports of Japanese cotton yarn and fabrics would be banned. This does not seem, however to have had any influence on the disposition.

#### II.- Widespread Uneasiness Among the Businessmen and People of China.

The reasons brought forward by the Chinese people and by business circles against the reopening of private trade with Japan are multifarious; but two main ones are the basis of their unfavourable attitude toward the overtures of the Government. First, the fear of directly or indirectly helping Japan to recover her former aggressive power; secondly the fact that owing to the orientation of the Chinese and Japanese industries their products cannot but compete against each other not only in the Pacific Islands, the South Seas and the Malay States but also on the Chinese market itself.

While China would gladly receive a large inflow of Japanese goods which might be useful to speed up her own postwar development, she is anxious to see that if her products are shipped to Japan they are strictly limited to those needed for the satisfaction of peace time requirements. Special care should be taken, for instance that Chinese coal and iron are not exported in such quantities as to help Japan again to develop her metallurgical enterprises.

Progress in the productive capacity of Japan and the exports already existing are being followed up with anxiety, as well as the provisions of the Trade Project recently publicized by the Japanese authorities. From this point of view, a Chinese journalist has carefully listed the articles whose production was partially or completely suspended during the war but is now being resumed, for foreign markets:-

| Items  | Jan. 1947 | Feb. 1947 | 1946 Monthly Averages |
|--|-----------|-----------|-----------------------|
| Sewing Machines                                    | 2,470     | 2,815     | 1,379                 |
| Watches  | 14,261    | 18,467    | 11,629                |
| Clocks   | 78,904    | 81,467    | 45,594                |
| Cameras (including X-ray)                          | 1,269     | 3,827     | 12,100                |
| Binoculars   | 1,602     | 1,448     | 3,144                 |
| Microscopes  | 242       | 285       | 237                   |
| Cement (Unit: 1000 met. tons)                      | 82        | 74        | 77                    |
| Window panes (Unit: case, at 100 sq. ft. per case) | 59,285    | 47,655    | 62,370                |
| Plate glass (case)                                 | 1,570     | 1,733     | 985                   |

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Another journalist points out that in the project alluded to above, Japan expects to ship 5,000,000 electric light bulbs to China in 1947. The Japanese estimate the consumption in the south China provinces at 100,000,000 bulbs; 5,000,000 in Kiang; 5,000,000 in the Northeastern Provinces and 5,000,000 in Korea. Similarly large numbers of alarm clocks and watches are provided for in the Japanese project and, according to various sources, have already arrived in Hongkong to be smuggled into the Chinese territories. The same is reported for Japanese sea products, the same again for porcelains, chinaware and safety matches..

rather disheartening comparisons are made between tea production in China and in Japan in 1940: 90,000 tons or 10% of her prewar standard for the former against 45,541,150 lbs or 35% of the prewar quantity for the latter. And the fact is emphasised that in September last some 1,000 tons of Chinese-styled green tea were shipped from Japan to North Africa. Again the 8,930 quintals of Chinese silk exported to the United States in 1946 are contrasted with the 50,000 quintals sent by Japan to the same country during the same period.

To show how exports from China to Japan can help the latter to recover her former markets it is mentioned that silk shipped from China has allowed Japan to increase her production of acoustic goods and to foster her glass industry which had manufactured some ¥ 59,400,000 worth of glassware for export by the end of May 1947 some ¥ 3,400,000 worth of which has been sold in Hongkong and the South Pacific Islands.

Finally the Chinese authors underline several disadvantages connected with the problems of exchange, wages and scarcity of raw material in this country:

- i) Since future transactions will be calculated on a basis of U.S. dollars of which China is still in great shortage, it seems ridiculous to spend them on inferior Japanese products instead of importing larger quantities of goods from the United States which are far better suited to Chinese industrial needs. Moreover it is very doubtful if China will be able to develop her trade with Japan under the present exchange control regulations.
- ii) As long as the real cost of production is disregarded by the SCAP authorities, China will be handicapped owing to the cost of labour which in Shanghai is between seven and eight times higher than in Nagasaki.
- iii) It is pointed out that China cannot make use of her finished products in exchange for Japanese goods but can only furnish Japan with raw materials of which she is herself suffering a great shortage after so many years of war and natural calamities. Would it not be more sensible for her first to supply her own people and industries?

### III.- The Case for Chinese Cotton Fabrics.

The most debated question is the influence of the reopening of private trade with Japan on the Chinese cotton textile industry which is considered as the only one able to compete with the Japanese on foreign markets.

Let us review briefly the pros and cons of the whole affair.

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In 1946 China sold some 10 million yards of cotton cloth to Singapore via Hongkong, Canton and Shanghai. In 1947, according to official sources, 3,013,600 yards of cotton fabrics were shipped in January and 8,000,300 yards in February to Singapore from the Chinese ports alone. Another 1,705,500 yards and 4,685,000 yards were exported in February and March respectively from Hongkong making a total of 17,000,000 yards sold to Singapore during the first quarter of this year. Since April, export of cotton goods to Malaya from China has been low as a consequence of Japanese infiltration on the South Seas market. In the early part of the year, the China Textile Development Inc. received government instruction to sell 20% of its total output to South Pacific and Far Eastern countries in order to acquire much needed foreign exchange for China. But this was not done without hindrance as Japanese goods could be bought at far lower prices than the Chinese products, as shown in the following quotations:

|                             | <u>Chinese</u> | <u>Japanese</u> |
|-----------------------------|----------------|-----------------|
| Cotton cloth(fine) per yd.  | US\$0.29-30.30 | US\$0.11-0.26   |
| Cotton yarn(20's) per bale. | US\$330        | US\$300         |

The first batch of Japanese cloth arrived at Singapore in May 1947 with a total of 12,000,000 yards. Immediately it reacted upon the prices for Chinese cloth, which dropped sharply from 470 to 350 (Strait Settlement Currency). Following the arrival of the second batch of Japanese cloth (1,000,000 yards) in August, the Chinese cloth market dropped to the same level as the Japanese. Similar reactions took place in Siam where reportedly, Japan had shipped 12,000,000 yards in July and 13,000,000 yards in August, and also in the Philippine islands which received 2,500,000 yards in August from the same source.

On the home market, Japanese cloth penetrated into the coastal provinces through smuggling. According to Ta Kung Pao 1), it was being sold in Kwangsi, Chekiang and Fukien at unusually low prices. It has been predicted that Japan's exports during 1947 will fairly reach US\$95,280,000 40% of which will be cotton yarns, cotton goods and fibre products.

The more optimistic consider that the infiltration of Japanese cotton yarn and cotton goods into China could be stopped by a protective tariff, on the condition that adequate measures are taken against contraband. In this respect, the people are urged to collaboration and patriotism. As to the large outflow of Japanese cotton yarn and cotton goods to Malaya where there is a huge demand for these materials, Japan is not yet in a condition to supply all the demands there and therefore, China may still maintain her share in these fields if her textile industry is furnished with sufficient raw materials, electric power and a reasonable foreign exchange system.

1) Chang Shou-shih: "The reopening of Japanese private trade and textile fabric markets in South Pacific islands", Ta Kung Pao (Shanghai), October 21th, 1947.

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Actually, the Chinese cotton textile industry is endeavouring to save the situation by every possible means such as the plantation of native cotton, the increase of spindleage and the solving of technical and labor problems. China has been relying for the raw materials that she lacks, on the import of foreign cotton. According to a recent report,<sup>1)</sup> there is a shortage of some 2 million tan (133,333 lbs. per tan) of native cotton this year for the Chinese mills. Meantime, the Ministry of Agriculture and Forestry is encouraging an increase of cotton acreage and output, in the hope of regaining the prewar standard of 60,000,000 mow (1 acre = 0.06 mow) and 25,000,000 tan within 3 years. As far as spindleage is concerned, it is hoped that within five years China will have 7,000,000 spindles of which she possesses only 4,500,000 at present. It is hoped that the China Textile Development Inc. and the "Ching Wei" Company will reach a regular output of 100,000 spindles within three years and the rest are to be provided through import.

The reopening of private trade with Japan will also affect the China silk project which was under discussion with the Americans during the war. It will no doubt hold up the barter of China silk for American cotton as previously planned, since Japan will be the main supplier of raw silk to the USA. The General's attitude toward the maintenance of the Japanese silk industry is clearly marked both by the failure of China's request for the Japanese machinery and accessories to rebuild her silk industry and by the proposed Japanese production of 35,000,000 lbs. by 1961.

As to the woollen industry, the collaboration of Australia with China as previously planned has been changed over to Japan on the recommendation of USA.

#### IV.- Gloomy Prospects for Taiwan-Japan Trade.

In a recent project drawn up by Taiwanese business circles it was proposed that food dealers should export brown sugar and potato starch against Japanese fertilizers and candies against condiments and candy machines. The fisheries would also sell sea products against fishing equipment and vegetable and fruit growers their own products against farm tools, seeds and fertilizers.

Recent experience however is not very encouraging. For instance a recent arrangement for selling 12,000 tons of bananas to Japan early in February was called off as SCAP would not approve any payment exceeding US\$ 0.06 per lb. which was lower than the market price in Taiwan itself; similarly, a sugar deal was suspended because against the proposal of US\$ 0.40 per lb. made by the Taiwan Sugar Corporation, SCAP was only willing to pay US\$ 0.15.

Moreover, many Chinese consider that Taiwan should be isolated from Japanese influence. Extremists have even suggested forbidding Japanese people to enter the island again. Some suggest a compromise in order to do business with Japan in Taiwan and they propose that all Taiwan imports from and exports to Japan should be carried through Shanghai. Of course this would increase the cost of transportation, but they say that the main burden would fall on the Japanese.

Whatever may be decided in this respect many insist on the fact that owing to the slow recovery of her productive capacity Taiwan cannot afford large scale exports to Japan. The island is self-sufficient for rice but should it have any surplus it

1) Shen Pao, December 7, 1947.

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would certainly be used for military consumption. Although a production of 300,000 tons of sugar is expected by 1948 this will not be enough for the consumption of China Proper. The surplus of coal amounting to 20,000 tons is now employed for supplying Shanghai and export to Japan is forbidden. The production of cement does not yet cover the needs of Taiwan and Chinese authorities consider as disadvantageous in the long run any export to Japan of caustic soda, hydrochloric acid and bleaching powder of which the island produces a big surplus.

Imports from Japan to Taiwan are equally problematic. To give a few instances, it is estimated that Japan being in need of fertilisers for herself is not in a position to supply Taiwan's requirements. The cigarette market of the island has already been taken up by America. The required machinery which now may be obtained through war reparations will later on most probably be replaced by American sales and the railways of China Proper have a definite priority for all sleepers available from Japan. This being so imports from Japan will have to be limited to a few items such as preserved and salted fish, cotton and woollen materials, canned goods and gunny bags.

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The discussions are still going on and the Chinese businessmen still delay their departure for Japan. Meanwhile it is reported that Chinese products intended for Japanese consumption are gradually being replaced by foreign ones and the trading center has moved over to Hongkong instead of Shanghai. Large quantities of Japanese luxuries banned by the Chinese Customs have been rushed to Hongkong from where they are being smuggled into the Chinese mainland and over half of the present Chinese exports to her former enemy are also smuggled into Hongkong before reaching their final destination...

(See next pages for the Appendix I & II)

NOTE: Articles and reports.... Continued from page 1.

- "The reopening of the Japanese trade and its influence on China's economy", by Li Yung-t'ing, The Banking Information, October 1947 issue.
- "Japanese industries for exportation", China Industrial Development, October 1947 issue.
- "A study on Japan's postwar trade", by Chin Hsuen-cheng, National Reconstruction, October 1, 1947.
- "Postwar Sino-Jap trade reviewed", by Shou Ch'in-wen, New China Magazine, October 18, 1947.
- "The reopening of Japanese private trade and textile fabric markets in the South Pacific Islands", by Chang Shou-shih, Ta Kung Pao, October 24, 1947.
- "The three main economic problems in the peace treaty with Japan", by Meng Hsien-chang, The Financial Review, November 1947 issue.
- "Sino-Jap trade for 1948", Shang Pao, December 14, 1947.
- "Future prospects of China tea relative to the 5-Year Plan of the Japanese tea industry", by Tze T'ing-hsi, Shang Pao, December 15, 1947.
- "Articles temporarily permitted for Sino-Japanese trade", Ta Kung Pao, December 18, 1947.

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## APPENDIX I

## Sino-Japanese Barter

Trade was resumed between China and Japan during the last months of 1945 in the form of barter, under the direction of the Executive Yuan. In April 1946 it was entrusted to the Central Trust Corporation which through the China Mission to Japan, acts as an intermediary between the Chinese merchants and SCAP.

Exports thus sent to Japan amounted to 3.11% of the Chinese total in 1946 and to 1.36% for the first six months of 1947. Corresponding figures for imports were 0.40% and 0.22% for the same periods. 1)

Jan-June 1947 2) Sino-Japanese Barter for the Year 1946 and for Jan-June 1947 2).

Exports to Japan  
(Values in CNC\$1,000)

| Japan  | Net Exports<br>During 1946 | Net Exports<br>Jan.-June 1947 |
|--|----------------------------|-------------------------------|
| Cereals & cereal products  | 948,233                    | 433,836                       |
| Fruits, fresh, dried & preserved   | 45                         | 788                           |
| Vegetables   | 1,236                      | 320                           |
| Fuel   | 15,507                     | 117,740                       |
| Textile fibres   | 50,050                     | ---                           |
| Ores, metals & metallic products   | 2,072,030                  | ---                           |
| Chemicals & chemical products  | 9,744,569                  | 26,700,233                    |
| Animals and animal products (not including hides, leather & skins(furs), & fishery & sea products) | ---                        | 29,260                        |
| Medicinal substances & spices(not including chemicals)   | ---                        | 42,000                        |
| Oils, tallow & wax   | ---                        | 63,600                        |
| Sugar  | ---                        | 223,350                       |
| Tobacco  | ---                        | 12,000                        |
| Other vegetable products   | ---                        | 304,819                       |
| Silber, wood & manufactures thereof  | ---                        | 3,399                         |
| TOTAL  | 12,831,419                 | 27,930,345                    |

## NOTES:

- 1) Before the war the trade with Japan amounted to approximately 15% of China's imports and exports.
- 2) From the Chinese Customs reports.

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Imports from Japan  
(CNY1,000)

| Items  | Net Imports |                |
|--|-------------|----------------|
|  | 1946        | Jan.-June 1947 |
| Cotton piecegoods, grey                                    | 4,934       | 29             |
| Cotton piecegoods, white or dyed                           | 23,639      | 3,348          |
| Cotton piecegoods, printed                                 | 599         | ---            |
| Cotton piecegoods, miscellaneous                           | 5,847       | 355            |
| Cotton, raw; cotton yarn & cotton thread                   | 16,184      | 1,895          |
| Cotton manufactures, sundry                                | 1,872       | 345            |
| Flax, ramie, hemp, jute & manufactures thereof             | 45,655      | ---            |
| Wool & manufactures thereof                                | 7,741       | 4,896          |
| Silk (including artificial silk) & manufactures thereof    | 31,244      | 5,618,640      |
| Metals & ores  | 49,445      | 153,617        |
| Machinery & tools  | 60,243      | 483,999        |
| Vehicles & vessels   | 345,917     | 5,590,034      |
| Miscellaneous metal manufactures                           | 37,388      | 209,444        |
| Fishery & sea products                                     | 135,557     | 104,118        |
| Animal products, canned goods & groceries                  | 46,019      | 2,532          |
| Cereals & flour  | 95          | 19,286         |
| Fruits, seeds & vegetables                                 | 21,061      | ---            |
| Medicinal substances & spices                              | 21,019      | ---            |
| Sugar  | 38          | 376            |
| Wines, beer, spirits, table waters, etc.                   | 8           | ---            |
| Tobacco  | 290         | ---            |
| Chemicals & pharmaceuticals                                | 310,141     | 214,371        |
| Dyes, pigments, paints & varnishes                         | 24,485      | 4,027,000      |
| Candles, soap, oils, fats, wax, gums & resins              | 161,755     | 8,158          |
| Books, maps, paper & wood pulp                             | 120,620     | 15,550         |
| Hides, leather & other animal substances                   | 27,328      | ---            |
| Timber   | 3,842,402   | 20,883,348     |
| Wood, bamboos, rattans, coir, straw & manufactures thereof | 13,667      | ---            |
| Coal, fuel, pitch & tar                                    | 37,738      | 680,274        |
| China ware, enamelled ware, glass, etc.                    | 28,293      | 51,427         |
| Stone, earth & manufactures thereof                        | 7,756       | 24,904         |
| Sundry   | 537,419     | 132,768        |
| TOTAL  | 6,065,119   | 38,232,320     |

From the above tables it can be seen that although Sino-Japanese barter showed a favorable balance of CNY4,763,300,000 during the first year, this was offset by a deficit of CNY10,301,975,000 in Jan.-June 1947. On the whole, China has been a constant buyer and the net deficit at the end of June 1947 amounted to CNY5,538,675,000. The main reason for the deficit is attributed to a diminution of the Chinese salt surplus disposable for export.

In this connection, it is interesting to list the chief items transacted between China and Japan.

| Items Exported               | 1946         | Jan.-May 1947 |
|------------------------------|--------------|---------------|
| Salt                         | 400,000 tons | 114,831 tons  |
| Brass                        | 17,000       | 900           |
| Iron                         | 2,000        | ---           |
| Phosphate rock <sup>1)</sup> | 20,430       | ---           |
| Soybean                      | ---          | 500,000       |
| Sugar                        | ---          | 25,000        |
| Tung oil                     | ---          | 800           |

1,20,000 tons of this were used for direct exchange against 2,500 tons of superphosphate

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Items Imported

Artificial silk (3,000,000 lbs. in 1946 and 2,000,000 for Jan.-May 1947), locomotives, freight cars, sewing machines, bicycles, woolen goods, sleepers (579,105 pieces), timber for mining (5,190,518 pieces), TNT. (6,233 cases).

Actually the Central Trust Corporation has been supplying the National Resources Commission with Japanese mechanical supplies. US\$510,000 worth of these articles have already been delivered and the value of those not yet delivered amounts approximately to US\$560,000.

Speaking in general, Sino-Japanese trade since the victory has followed a similar line, the exchanging Chinese raw materials against Japanese light industrial products. One slight difference is that China is no longer in a position to supply Japan with raw cotton and the latter has not resumed her large scale exports of soy beans to China. Experts in the latter consider that this general trend will be further developed when the reopening of private trade takes place.

It is reported in the local Shung Pao, Dec. 14, 1947 that the Central Trust Corporation is making plans for Sino-Japanese barter in 1948. According to the Corporation the program for 1948 will be more or less similar to that of 1947 and depend mainly on the export of salt of which the Salt Administration is preparing to appropriate a large quantity during the next year for this purpose. It is said moreover that China will find it impossible to import locomotives and rails if she stops sending her iron ore. In this respect it may be noted that iron ore from Hainan island is being sold by the National Resources Commission to Great Britain at US\$7 per ton for re-export to Japan, transportation being reserved to Chinese merchantmen only.

APPENDIX II

Articles Temporarily Authorized

For Trade between China and Japan<sup>1)</sup>.

Trade with Japan is temporarily confined to the following items only:

- (1) Exports: iron ores (to be exported this year in exchange for Japanese rails only); lacquer (tung oil and crude lacquer); bristles; jute, hemp and ramie; sugar; salt; cereals; soya and manufactures thereof (including soya, bean oil, bean cakes, soya powder, peanuts, green beans, rape seed, raw silk, etc.);

<sup>1)</sup> See also the report of the National Resources Commission, December 18, 1947.

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animal hair, skins and hides and bones (wool, goat hair, camel hair, skins, bones and horns); 6868; tobacco; camphor; medicinal plants and sundries (resin, bran, wild silk, fruits, cotton-seed oil, cotton-seed cake, etc.)

(2) Imports: Transportation equipment and spare parts; artificial silk; chemicals (nitric acid, acetic acid, sulphate of ammonia); fertilizers (superphosphate, calcium sulphide, lime, nitrate); metals (brass and copper, copper ingots and slabs, wires and heavy steel manufactures); timber (for pit props and for matches, round logs and ordinary logs); farm tools, seeds and seedlings (silkworm eggs, mulberry seedlings and seeds); machineries and accessories (machines, testing apparatus, ammeters, voltmeters, dynamometers, high-temperature thermometers, and sundries (wood pulp, artificial indigo, tar, whale oil, newsprint, etc...))

( End )

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U N I V E R S I T E L ' A U R O R

- S h a n g h a i -

BUREAU DE COORDINATION  
(Economie Chinoise)

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Draft of the Commercial Registration Law

Drawn up by the Ministry of Finance

Published in the Lih Hsin Monthly Review  
Oct. 15th, 1937.

Annex No. XXXVI.  
Study concerned  
Number of pages 13  
Remarks: Translated  
by our Legal  
Department.

DRAFT OF THE COMMERCIAL REGISTRATION LAW<sup>1)</sup>

Chapter I.- General Provisions.

Article 1.

A "commercial business" as mentioned in this Law shall refer to all enterprises which are operated for the purpose of making profit, but shall not include specialized professions of a technical nature.

Article 2.

The competent authority mentioned in this Law shall be the Ministry of Economic Affairs in the Central Government; that for a province shall be the Public Works Department; that for a municipality under the direct jurisdiction of the (Executive) Yuan shall be the Bureau of Social Affairs; that for an ordinary municipality, the municipal government, and that for a Haïen<sup>2)</sup>, the Haïen government.

Article 3.

The responsible persons of a commercial business as mentioned in this Law shall be: in individual ownership, the owner of the business; in a partnership, the partners or those partners who conduct business; and in commercial businesses organized in any other way, as provided by their respective laws.

So far as the performance of their duties concerned, managers or liquidators shall also count as responsible persons of commercial businesses.

Article 4.

Unless otherwise provided by other laws, commercial registration shall be governed by the provisions of this Law.

EDITOR'S NOTES:

1) This is only a drafted revision which has not yet been promulgated. Therefore the Commercial Registration Law of June 28th, 1937 is still in force at present.

2) Haïen: district.

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Article 5.

Small scale commercial businesses may be exempted from following the provisions of this Law.

The central competent authority, after taking into consideration the economic conditions within the areas of the various provinces and municipalities under the direct jurisdiction of the (Executive) Yuan, shall separately determine the respective scope of their small scale commercial businesses as mentioned above, and submit them to the Executive Yuan for confirmation and publication.

Article 6.

If according to any law or ordinance, the operation of a business by a commercial firm is subject to previous approval by the competent authority of the type of business concerned, a certificate of this approval shall first be secured and then application shall be made for registration in conformity with this Law.

Article 7.

If a commercial business has failed to register any particulars whose registration is required by this Law, or has failed to make the necessary alterations or cancellations when any change or closing down has occurred, the business cannot make use of these facts against a third party.

Article 8.

The government authority with which a commercial business has been registered and the Tzu 1) and number of its registration certificate, must be clearly indicated on all the documents it sends out.

Chapter II.- Particulars to be Registered, their Alteration and Cancellation.

Article 9.

A commercial business shall, within fifteen days after its establishment, report the following particulars to the competent authority of the municipality or Hsien where its principal store is located, and apply for the registration of the establishment of its principal store:

- 1) Name of the commercial business;
- 2) Business undertaken;
- 3) Location of the principal store;
- 4) Whether the business is under individual ownership or partnership;
- 5) Total amount of capital;
- 6) The full name and domicile of the owner of the commercial business or the full names and domiciles of its partners;
- 7) In the case of a partnership, the kinds and amounts of the contributions of the various partners;
- 8) In case of the complete or partial legal disability of the owner or any of the partners, the reasons for this disability, the limits of their business rights and the full names and domiciles of their legal representatives;

- 1) SIGNATURE: Tzu; character. The sign of registration consists of a character and a number, as we might use A.1.2.3... B.1.2.3...etc.

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- 9) The full names of any partners who have been appointed to conduct the business of a partnership;
- 10) Where managers have been appointed, their full names and domiciles and the limits of their power of management;
- 11) Where the business has commercial agents, their full names, addresses, and the limits of their power of commercial representation;
- 12) The seal of the business, if a special seal is used.

Where a commercial business under partnership has already made the above registration, if any person who has contributed to the capital (of the business) or has promised to do so by contract, has not been registered as a partner, he shall be considered as a dormant partner.

Article 10.

When a commercial business establishes a branch store, it shall, within fifteen days after the latter's establishment, report the following particulars to the competent authority of the municipality or Hsien where the branch store is located and apply for the registration of the establishment of its branch store:

- 1) The particulars provided in Article 9, but if the branch store is founded within the municipality or Hsien where the principal store is located, these particulars can be omitted;
- 2) Name of the branch store;
- 3) The business undertaken by the branch store where this differs from that undertaken by the principal store;
- 4) Location of the branch store;
- 5) The capital amount of the branch store if its capital is separated from that of the principal store.
- 6) Where the branch store has appointed managers, their full names, domiciles and the limits of their power of management;
- 7) If the branch store has commercial agents, their full names, addresses and the limits of their power of commercial representation;
- 8) The seal of the branch store if it has a special seal for use in its business;
- 9) The name of the government authority with which the principal store has been registered and the Tzu and number of its registration certificate--- if the branch store is founded within the municipality or Hsien where the principal store is located, these particulars may be omitted.

Article 11.

Where with the approval of his legal representative, a person under partial legal disability is independently to operate a commercial business, or to become a partner or shareholder of unlimited liability, the legal representative shall apply for registration thereof with the competent authority of the municipality or Hsien where the commercial business is located.

If upon discovering that the person under partial legal disability is not qualified for the above acts, the legal representative withdraws his approval or imposes more restrictions, he shall report the reasons therefor and apply to the competent authority for registration.

For these two registrations application shall be made simultaneously for the establishment of or alteration concerning the principal or branch store.

Article 12.

The restrictions imposed by a commercial business on the power of transacting business, power of management and power of commercial representation as provided in items 6, 10 and 11 of Paragraph 1 of Article 9 and items 6 and 7 of Paragraph 1 of Article 10, shall not be used against a bona fide third party.

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Article 13.

When after their registration, any of the various particulars to be registered as provided in Articles 9 to 11, have been changed or cancelled, application for an alteration in the registration shall be made within fifteen days after such change or cancellation, to the original registering authority.

Article 14.

If the ownership or partnership in a commercial business which has been registered, passes by inheritance to another the heir in the case of an individual ownership, or the other partners jointly with the heir in the case of a partnership, shall, within fifteen days after the heir has received the inheritance, apply to the original registering authority to alter the registration.

Article 15.

When a commercial business which has been registered, is transferred both the transferor/s and the transferee/s, whether the owners or all the partners of both parties, shall, within fifteen days after the transfer, apply to the original registering authority to alter the registration.

Article 16.

Where the principal or branch store of a commercial business, which has already been registered, moves outside the municipality or Hsien where it was originally located, it shall, within fifteen days after the removal, request the original registering authority to cancel its registration, and also apply to the competent authority of the municipality or Hsien into which it has moved, to register its establishment.

Article 17.

When a registered commercial business ceases operating or is closed down, it shall, within fifteen days after the cessation or dissolution of its business, request the original registering authorities for the principal and branch stores to cancel their respective registration. When a registered branch store of a commercial business ceases operating, it shall, within fifteen days after the cessation of business, request the original registering authority to cancel its registration as a branch store.

Article 18.

When the principal or branch store of a commercial business has not yet begun to operate six months after the registration of its establishment, or if after it has opened for business, it ceases operation for more than one year, the original registering authority may cancel the registration either at the request of the interested parties or by the use of its own powers.

Where the above cancellation of registration is asked for by the interested parties, the original registering authority shall notify the responsible persons of the commercial business in question to state their reasons <sup>1)</sup> within a fixed time limit of between one and two months. If the reasons are not stated within the prescribed period or if the reasons stated are not sufficient, the original registering authority shall then cancel the registration.

1) EXPLANATION: i.e. their reasons for not having opened or for having closed for more than one year.

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A commercial business may state its reasons to the original registering authority and request it to extend the time limits as prescribed in the two preceding paragraphs; they shall not be extended for more than one month.

Article 19.

If a registered commercial business is declared bankrupt or its operation is prohibited by administrative punishment or by the sentence of a court, the original registering authority shall cancel its registration upon notification by the authority or court which inflicts the punishment.

Chapter III.- The Name of a Commercial Business.

Article 20.

None of the following shall be used as the name of a commercial business when applying for registration:

- 1) The national name (Republic of China), the name or common name of its founder 1), the name of a government organization or of a legal body.
- 2) The word "China" used in any sense which may be lacking in respect.
- 3) Any name offensive to morals or to public order, or which may cheat the public.
- 4) A name belonging to another person, used without his consent.
- 5) A name the same as or similar to that of a popularly known commercial business operated by others, and used for the same type of business.
- 6) A name already registered as a trade mark by others, and used for transactions in goods of the same kind.
- 7) The name of a special product of a certain place, or the name of the place, used alone as the name of the commercial business dealing with that product.

Article 21.

No commercial business shall use a name the same as or similar to that of another commercial business already registered, in the same municipality or Hsien, and engaged in the same type of business.

A name the same as another, but preceded by the name of a place or an adjective, shall be regarded as similar (name) unless a Chi 2) is added as provided in this Law.

EDITOR'S NOTES:

- 1) i.e. Sun Ching-shan, Sun Yat-sen and Sun Wen.
- 2) Chi: mark, symbol. e.g. if another Book Company exists "Shanghai Book Co." would be a similar name, but "Wong Chi" Shanghai Book Co. could be used.

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Article 22.

If a name the same as or similar to that of another commercial business already registered, is used for illegitimate competition, whether in the same municipality or Hsien or not, the persons interested may request the competent authority to prohibit its use; if they have sustained any damage therefrom, they may further ask for damages.

If a name the same as that of another commercial business already registered in the same municipality or Hsien, is used to undertake the same type of business, and furthermore no change is made despite notification by the competent authority of the municipality or Hsien or by the persons interested, this shall be considered as illegitimate competition.

The same provision shall apply when a name similar to that of another commercial business already registered, is used to undertake similar business transactions and furthermore no change is made despite notification by the competent authority of the municipality or Hsien.

Article 23.

If one firm has used a name continuously for two years before the enforcement of this law, but subsequently to such use the same or a similar name has already been registered by another commercial firm doing the same type of business, then the restriction imposed by Article 21 shall not apply; but the firm shall, in registering its name add a distinguishing mark.

Article 24.

If within one year after the enforcement of this law several commercial businesses founded before its enforcement make separate application to the competent authority of the same municipality or Hsien for the registration of the same name or of similar names; then the one whose use of the name within the municipality or Hsien was earliest and has been uninterrupted shall be allowed to register it. If before the application (the name) had never been used by any one of them, or if it cannot be proved who was the first to use it, then the one who first sends in an application, shall be allowed to register it. If all the applicants apply on the same day, they shall be ordered to reach a mutual agreement to let one of the commercial businesses use it, and then only shall the registration be allowed.

If the various commercial businesses which separately apply for registration as mentioned in the preceding paragraph, have all been using the name or names for more than three years without interruption, they shall all be allowed to register but each shall add a distinguishing mark.

Article 25.

If several commercial businesses founded after the enforcement of this law, separately apply for registration of the same name or similar names with the competent authority of the same municipality or Hsien, the one which first sends in an application, shall be allowed to register; if all the applicants apply on the same day, the provision of Paragraph 1 of the preceding article shall apply.

Article 26.

If a commercial business which has already been registered in accordance with this law, reorganizes itself into a company, and if it has been using its registered name continuously and without interruption within a municipality or Hsien for more

Article XXVI.

Article 31.

Where a commercial business uses the name of its owner or that of a partner as its name, when the business is transferred or the partner retires, the owner or partner or their heirs may ask that the name shall no longer be used.

Chapter IV.- Commercial Businesses Operated by Foreigners.

Article 32.

Where a commercial business operated by foreigner/s has its principal store within Chinese territories, if it is under individual ownership, the owner of the commercial business must have his domicile in China; if it is a partnership, at least one of the partners must be domiciled in China.

Article 33.

When a foreign commercial business whose principal store is not within Chinese territories, founds a branch store in China, if the owner or the partners of the commercial business have no domicile in China, a person domiciled in China shall be appointed as their legal and extra-legal representative.

The full name, nationality and domicile of the agents mentioned above, shall be reported at the time when the branch store concerns applies for the registration of its establishment; a written power of attorney shall further be annexed.

Article 34.

If according to any law or ordinance the locality or business type of a commercial business operated by foreigners within Chinese territories, is subject to special authorization by a competent authority, it shall, after securing the certificate of special authorization, apply for registration in accordance with this Law.

Article 35.

When a commercial business operated by foreigners within Chinese territories, applies for registration, the applicant shall submit documentary evidence of his nationality; if its legal or extra-legal representative, manager or commercial agent is a foreigner, the documentary evidence of his nationality shall also be annexed when submitting the application for registration.

If the foreigners mentioned in the preceding paragraph are persons without nationality, they shall submit a certificate from the competent authority of the census register of the locality within Chinese territories, where they are domiciled.

Article 36.

In any of the following cases, the provisions of this Chapter shall apply to commercial businesses operated by a joint partnership of foreigners and Chinese nationals:

- 1) Where foreign partners have contributed more than half of the total amount of capital of the partnership.
- 2) Where the foreign partners are more numerous than the Chinese partners.
- 3) Where the Chinese partners have no domicile within Chinese territories.

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Chapter V.- Procedure and Fees of  
Registration.

Article 37.

The owner, or all the partners of a commercial business shall apply for the registration of establishment, the registration of the transfer or the cancellation of the registration of the principal store of the commercial business, unless otherwise provided in Articles 11, 14 and 15, application to alter the registration of principal store, or to register the establishment or alteration or to cancel the registration of a branch store, shall be made by the owner or the partners of the commercial business, or by those partners who conduct the business.

Article 38.

Application to register the transfer or to cancel the registration of the principal store of a commercial business operated by foreigners within Chinese territories, shall be made by the owner of the commercial business or by all the partners domiciled in China. Application to alter the registration of a principal store, or to register the establishment or alteration or to cancel the registration of a branch store, shall be made by the owner of the commercial business or by the partners who conduct the business or those who are domiciled in China.

Article 39.

The owner of a commercial business or the partners who are responsible for applying for the registration, may appoint an attorney to apply for the registration of the commercial business.

When an attorney makes application as mentioned in the preceding paragraph, he shall at the same time submit the letter of attorney issued by the owner of the commercial business or by the partners who are responsible for the application.

Article 40.

If according to the provisions of Article 6, a previous approval is necessary for the operation of a commercial business, it shall, when applying for the registration of its establishment, submit the original or a copy of the certificate of approval.

Article 41.

If according to the provisions of Article 24, a special authorization is necessary for the operation of a commercial business by foreigners within Chinese territories, the original or a copy of the certificate of special authorization shall be annexed when applying for the registration of its establishment.

Article 42.

When the heir of the owner of a commercial business or the partners together with the heir apply for registration according to the provisions of Article 14, they shall at the same time submit documentary evidence of the fact of inheritance.

Article 43.

When a commercial business applies for the registration of a name coming under the provisions of Article 21 or Paragraph 2 of Article 24, it shall at the same time submit documentary evidence to prove that it was the first to use it and has been using it for continuously more than two or three years.

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When a commercial business applies for the registration of a name coming under the provisions of Article 20, it shall at the same time submit documentary evidence proving that ten years have elapsed since the registration of the name and that since then it has continuously been using it.

Article 44.

If the documents submitted by foreigners are in a foreign language, a Chinese translation of the text shall be annexed.

Article 45.

An applicant for registration who discovers any error or omission in the particulars after they have been registered, may within one month request the competent authority of the municipality or Hsien to make a correction.

Article 46.

The competent authority of a municipality or Hsien shall, within five days after approving a registration or a correction in a registration, publish the various particulars registered or corrected.

Article 47.

The competent authority of a municipality or Hsien shall issue a certificate of registration to each principal or branch store the registration of whose establishment has been approved.

The form of the above-mentioned certificate of the registration of principal or branch stores shall be determined by the central competent authority, and the competent authorities of the various municipalities and Hsiens shall separately make the certificates according to the form appointed.

Article 48.

If because a commercial business applies for an alteration to be made in its registration, the statement on the original certificate of registration needs to be corrected, this original certificate shall be cancelled and a request made for the issue of a new certificate of registration.

When the particulars on the certificate of registration have been corrected, the provision of the preceding paragraph shall also apply.

Article 49.

When a commercial business applies for cancellation of its registration, it shall hand over its certificate of registration for cancellation.

Article 50.

When according to the provisions of Articles 18 and 19, the competent authority of a municipality or Hsien cancels the registration of a commercial business, it shall reclaim and cancel the certificate of registration which it originally issued.

Article 51.

The competent authority of a municipality or Hsien shall only have to sanction such registrations as are provided for in Article 11 and also such alterations in registration as do not require a change of the certificate of registration.

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Article 52.

A commercial business shall, when applying for its registration, pay registration fees as provided below:

- 1) In the case of registration of the establishment of the principal store, one per mille of the total amount of its capital.
- 2) In the case of registration of the establishment of branch stores:
  - a. Where their capital is separate, one per mille of the amount of the capital;
  - b. Where their capital is not separate, two thousand National Currency dollars for each branch store.
- 3) In the case of alteration in a registration:
  - a. Where the capital is increased, two per mille of the amount of increase;
  - b. Where there is no increase of capital, one thousand National Currency dollars each time.
- 4) For the cancellation of a registration, one thousand National Currency dollars.
- 5) For any other registration, one thousand National Currency dollars.

Article 53.

Where the registration of a commercial business requires the issue of a certificate of registration or a change therein, one thousand National Currency dollars shall be paid as fee for each certificate; the same shall apply when a certificate of registration has been lost and an application is made for the issue of a new one.

Article 54.

The competent authority of a municipality or Hsien shall keep the following registers in which to inscribe the various particulars of registration:

- 1) Register of the principal stores of commercial businesses;
- 2) Register of the branch stores of commercial businesses;
- 3) Register of the power of transacting business of persons under partial legal disability.

The forms of the above-mentioned registers shall be determined by the central competent authority, and each of the competent authorities of the various Municipalities or Hsien shall make its registers according to the fixed forms.

Article 55.

Persons interested in a commercial business may ask permission from the competent authority of the municipality or Hsien to examine in the registers mentioned in the preceding article, the particulars of the registration of that commercial business and the documents annexed thereto; they may further ask for the issue of a document stating whether the particulars registered have been altered, or whether a certain particular has been registered, and also for full or abridged copies of the same.

Without legitimate reason, the registering authority shall not reject the requests mentioned in the preceding paragraph. Each time any person requests permission of the registering authority to examine the registers and the annexed documents, he shall pay one thousand National Currency dollars as examination fee;

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any person who asks for the issue of a certificate, shall pay two thousand National Currency dollars as fee for each certificate; and any person who requests that copies should be made for him, shall pay a fee of two thousand National Currency dollars per thousand words copied.

Article 50.

The competent authority of each ordinary municipality or Hsien shall every half year prepare two lists of cases of commercial registration and submit them for reference to the provincial competent authority, which shall transmit one list to the central competent authority for reference.

The competent authority of each municipality under the direct jurisdiction of the Central Government shall every month prepare a list of cases of commercial registration and submit it to the central competent authority for reference.

#### Chapter VI.- Penalties.

Article 57.

Any person who creates illegitimate competition by using a name the same as or resembling that of another commercial business which has already been registered, shall be sentenced to penal servitude or detention not exceeding one year or to a Fa Chin<sup>1)</sup> fine not exceeding twenty thousand dollars.

Article 58.

The responsible persons of a commercial business who fail to apply for the registration of its establishment according to the provisions of Article 9, 10 or 61, shall be punished with a Fa Huan<sup>2)</sup> fine not exceeding ten thousand dollars; where the application is made after the expiration of the time limit, Fa Huan fine not exceeding two thousand dollars shall be imposed.

If after being penalised, the responsible persons of the commercial business still fail to apply for the registration of establishment as mentioned above, the competent authority of the municipality or Hsien may order them to file the application within a prescribed period, failing which the business shall be closed down.

Article 59.

The responsible persons of a commercial business who fail to apply for alteration in or cancellation of its registration in conformity with the provisions of Articles 13 to 17, may be punished with a Fa Huan fine not exceeding five thousand dollars.

Article 60.

The responsible persons of a commercial business who contravene the provisions of Articles 20 and 18, shall be punished with a Fa Chin fine not exceeding twenty thousand dollars.

#### EDITOR'S NOTES:

1) The term Fa Chin is used for a strictly penal fine under a criminal law; that is, a pecuniary punishment imposed by a lawful tribunal on a person convicted of crime or dishonour.

2) The term Fa Huan is used for a fine of a civil character, imposed for breaches of taxation laws; in both cases it is imposed for offences which do not come under the penalties of the criminal law.

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Chapter VII.- Supplement.

Article 61.

All commercial businesses which have not been registered before the enforcement of this Law, shall, within one year after its enforcement, apply for the registration of their establishment according to the provisions of this Law.

Article 62.

Any registration made before the enforcement of this Law, and in conformity with the Commercial Registration Law then in force, shall have the same effect as registrations made according to the present Law; but if the particulars in the original registration do not conform with the provisions of the present Law or are incomplete, then an application shall be made for alteration in the registration within one year after the enforcement of the present Law.

Article 63.

This Law shall come into force on the day of promulgation.

( End )

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U N I V E R S I T E L A U R O R E

- S h a n g h a i -

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Regulations for Controlling the  
Rate of Interest

Promulgated by the National Government  
on the 19th. of December 1947 1) ,

Published in Ta Kung Pao  
Dec. 19th. 1947.

Annex No.: XXXVII

Number of pages: 2

Remarks: Translated  
by Our Legal  
Department.

REGULATIONS FOR CONTROLLING THE RATE OF INTEREST

Article 1.

The control of the rate of interest shall be governed by the provisions of these Regulations.

Article 2.

The rate of interest on deposits in modern and native banks shall not exceed the rate of interest on loans. The local Modern and Native Bankers' Association shall every day, taking into consideration the conditions of the financial market, determine the daily interest rate on loans between bankers and on loans, and submit them to the Central Bank for confirmation: They shall then be announced for enforcement as the maximum interest rate on loans.

Article 3.

In places where the Central Bank has no office, the interest rate on loans granted by modern and native banks shall be based on that in the nearest place where it has been announced by the Central Bank.

Article 4.

Where the interest rate on a loan granted by a modern or native bank exceeds the maximum daily interest rate announced by the Central Bank for the same day, the creditor shall have no right to claim the part in excess.

1) EDITOR'S NOTE: The same ordinance which promulgated the Regulations for Controlling the Rate of Interest, simultaneously announced the abrogation of the former Regulations for Controlling the Rate of Interest on Deposits and Loans through Banks.

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Article 5.

The interest rate on monetary obligations under agreement by persons other than modern and native bankers, shall not exceed the daily interest rate fixed by the local office of the Central Bank at the time when the agreement is reached; otherwise the creditor shall have no right to claim the part in excess.

Article 6.

where no interest rate has been agreed upon for a monetary obligation on which interest should be paid, the creditor may request that it shall be computed according to one half of the daily interest rate on loans fixed by the local office of the Central Bank.

Article 7.

These Regulations shall come into force on the day of promulgation.

( End )

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U N I V E R S I T E L ' A U R O R E

"Shanghai -

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Measures governing the Affixing of Revenue  
Duty stamps on Sales Invoices issued by  
Factories which have already paid  
the Commodity Tax

Annex No.: XXXVIII

Annexes concerned Nos.  
XXV and XXVI.

Promulgated by the Ministry of Finance  
on the 25th. of October 1947;

Number of pages: 2

Published in the Weekly Review of Laws  
(Fa Ling Chou A'ian)  
Oct. 29th. 1947.

Remarks: Translated by  
our Legal Department.

MEASURES GOVERNING THE AFFIXING OF  
REVENUE DUTY STAMPS 1)  
ON SALES INVOICES ISSUED BY FACTORIES WHICH HAVE ALREADY  
PAID THE COMMODITY TAX

Article 1.

Factories undertaking to produce goods subject to  
the commodity tax (hereafter briefly mentioned as factories) shall  
pay the commodity tax on their products according to the Law; when  
making out invoices for the sale of these products, they shall  
affix revenue duty stamps thereon in conformity with the provisions  
of these Measures.

Article 2.

When selling their products, factories shall make  
out separate invoices in accordance with the Business Tax Law 2)  
and the Special Business Tax Law 3); if it is necessary to make  
out a separate warehouse receipt for the delivery of the goods,  
revenue duty stamps shall be affixed thereon separately.

EDITOR'S NOTES.

- 1) Reference may be made to the revenue stamp duty law  
now in force, which was revised and promulgated by the National  
Government on the 6th. of June 1947 and to its application rules  
promulgated by the Executive Yuan on the 3rd. of July 1947 (see  
Monthly Bulletin No. X - Aug.-Sept. 1947. Annexes XXV & XXVI).
- 2) The Business Tax Law was revised and promulgated by  
the National Government on the 1st. of May 1947 (see Monthly Bulletin  
No. VIII. May 1947. Annex XIX) and its Application Rules promulgated  
by the Executive Yuan on the 4th. of August 1947 (see Monthly  
Bulletin No. X - Aug.-Sept. 1947. Annex XXVII).
- 3) The Special Business Tax Law was promulgated by the  
National Government on the 1st. of May 1947 and its application  
Rules by the Executive Yuan on the 11th. of June 1947 (see Monthly  
Bulletin No. IX - June-July 1947. Annexes XXII & XXIII).

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Article 3.

The selling prices of the products, as listed on the invoices issued by factories, shall be the actual selling prices. If commodity tax has already been paid, the whole amount of this commodity tax may be deducted. This must be stated on the invoice and revenue stamps affixed according to the law. The following shall also be stamped on for purposes of examination: "Certificate of commodity tax inspected and \$..... deducted for commodity tax already paid."

Article 4.

An invoice on which revenue duty stamps are affixed in accordance with these Measures, shall have the certificate of payment of the commodity tax attached to it; they shall not be separated. But, where no certificate of tax payment has been issued for the goods, the resident commodity tax collector shall stamp on the words: "Commodity Tax already paid", for purposes of proof.

Article 5.

Any factory using machinery, to which resident commodity tax investigators and collectors have been sent, may apply to use the Simplified Measures for Affixing Revenue Duty Stamps<sup>1)</sup>.

Article 6.

No factory shall use a warehouse receipt for the delivery of goods, a certificate of payment of the commodity tax or conveyance certificate as a substitute for the invoice.

Article 7.

Where a factory also undertakes retail sales, the provisions of these Measures shall not be applied to its retail department.

Article 8.

If the provisions of these Measures have been contravened, the amount of commodity tax already paid shall not be deducted from the invoice.

Article 9.

These Measures shall come into force on the day of promulgation.

( End )

1) EDITOR'S NOTE: The Simplified Measures for Affixing Revenue Duty Stamps were promulgated by the Ministry of Finance on the 8th. of May 1947.

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U N I V E R S I T E L I B R A R Y

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regulations governing the Renting  
of Houses

Promulgated by the National Government  
on the 1st of December 1947.

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Remarks: Translated by the  
Legal Department.

REGULATIONS GOVERNING THE  
RENTING OF HOUSES

Article 1.

The provisions of these regulations shall govern  
the renting of houses in places where provincial or municipal  
governments are located and in other densely populated localities  
and regions where it is difficult to lease houses, as designated by  
the provincial government, in cases not covered by these Regulations,  
those of the Civil Code (1), the Land Law (2) and other laws and  
ordinances shall be applied.

Article 2.

If anyone is neither himself using a house available  
for dwelling nor leasing it out, the competent government may order  
him to lease it within the period of one month.

Where according to the provisions of Article 96 of  
the Land Law (3), the rooms used by a person himself exceed his  
actual requirements, he may be ordered to lease within a prescribed  
period, the rooms in excess of his requirements.

Editor's notes:

1) The Chinese Civil Code contains 5 Books, separately  
promulgated and enforced by the National Government on different  
dates. Special reference may be made here to Book II, "Obligations"  
(promulgated on Nov. 22nd, 1929 & enforced on May 5th, 1930). Chapter II,  
Section 5, "Renting" (Art. 421-463).

2) The Land Law now in force was revised and promulgated  
by the National Government on the 29th of April 1948 (see Monthly  
Bulletin No. IV-January, V-February and VI-March 1947; Documents 23,  
30 & 36 "The New Land Law Compared with the Old" by Prof. Sung Chi-  
hui).

3) Art. 96 of the Land Law reads:

"A municipal or district government may, taking into  
consideration local conditions, impose necessary restrictions on  
the number of rooms occupied by each individual as his personal  
dwelling place in an urban area; but this shall be done with the  
approval of the local organs of public opinion."

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If anyone disregards the orders mentioned in the preceding paragraphs, their leasing shall be made compulsory and a *Fa Huan* fine 1) not exceeding five thousand dollars may further be imposed.

Article 3.

When a house is leased, besides the rent, a cash security may be received. The maximum cash security shall not exceed the total rent for two months.

If an agreement is made containing a cash security which contravenes the above provision, the part in excess shall be refunded to the lessee, and a *Fa Huan* fine not exceeding twice the amount in excess may further be imposed.

Article 4.

Rents shall be paid monthly; the competent government may, with the approval of the local organ of public opinion and according to local economic conditions, restrict them to a given maximum.

If an agreement is made in which the rent exceeds the maximum as restricted in the preceding paragraph, the part in excess shall be regarded as undue increment; the lessee may, within six months after its payment, ask for a refund.

Article 5.

Apart from rent, the lessor shall not take money as 'key-money' 2) or under any other title.

Article 6.

A lessee shall <sup>not</sup> sub-let all his rooms to others; where some of the rooms are sub-let, if the contract contains stipulations opposing this, then written consent shall first be secured from the lessor or the sub-letting contract shall be sent over to the lessor to be signed by him.

The rent for sub-letting shall be computed in proportion to the part sub-let and the original rent, and shall not exceed twice the original amount of rent. If a cash security originally existed, the cash security shall be computed in the same way. Furthermore one half of the part in excess of the original amount of rent and of cash security shall be paid to the lessor.

When sub-letting rooms, no 'key-money' 3) or money under any other title shall be taken.

EDITOR'S NOTES.

1) The term *Fa Huan* is used for a fine of a civil character under civil law, or of a fiscal character, imposed for breaches of taxation laws; in both cases it is imposed for offences which do not come under the penalties of the criminal law.

2) The Chinese expression is '*Hsiao Fei*', literally meaning: small fee.

3) In the original text of the Law, two expressions '*Ting Fei*' and '*Hsiao Fei*' are used here to mean the same thing: key-money. Literally, '*Ting Fei*' means: take-over money.

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Article 7.

Where before the enforcement of these Regulations, a lessee had sub-let all his rooms to others, the present lessees and the person who has the right to rent them out, shall conclude another contract within six months; if without the consent of the lessor some of the rooms had been sub-let to others, unless he gives his signature as provided in the preceding Article, he may take back those rooms which have been sub-let and lease them out again. But the original sub-lessee shall have a preferential right to rent them.

The lessor shall not refuse to give his signature, as mentioned in the preceding paragraph, without an adequate reason.

Article 8.

Any contravention of the provisions of Article 5 and paragraph 3 of Article 6 shall be punished with a *ku Huan* fine not exceeding three times the amount of money received.

Article 9.

A lessor shall not terminate a (renting) contract except on one of the following conditions 1):

- 1) If the lessee puts the premises to illegal uses.
- 2) If for reasons for which he is responsible the lessee owes an amount of rent equal to the amount of the cash security given plus at least two months' rent.
- 3) If the lessee has intentionally or through negligence damaged the lessor's house and fails to make repairs or pay adequate compensation.
- 4) If the lessee contravenes the provisions of paragraph 1 of Article 6.
- 5) If proof is furnished that the lessor is taking back his house for his own use, in accordance with the provisions of Article 11.
- 6) If the term agreed on for the lease has expired.
- 7) If the lessee has closed up the house and has ceased to use it for more than six months.
- 8) When the house has to be rebuilt, and the lessee has been notified three months in advance, and furthermore a building licence has been secured.
- 9) When the lessee violates the restrictions laid down in the lease.

The provision of Item 6) of the preceding paragraph shall not apply to a fixed term lease of less than two years or one containing a special agreement.

Article 10.

Where a lease has been concluded for a term of more than one year, if a considerable change has taken place in local economic conditions, the party concerned may request that the increase or decrease of the rent be considered. The same shall apply to a lease of indefinite term.

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- 1) EDITOR'S NOTE: Compare with Land Law, Art. 100 and its New Interpretation issued by the Judicial Yuan June 24th, 1947 (see Monthly Bulletin No. 11 - June-July 1947, Annex XXIV).

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Article 11.

If after a lease of indefinite term has been in force for two years, the lessor for adequate reasons has to take back the house for his own use, he shall furnish definite proofs of his need, and further give the lessee three months notice of the cancellation of the lease.

Article 12.

If without legitimate reason the lessor refuses to accept rent paid to him by the lessee as provided in the lease, the lessee may deposit the rent in a bank or post office in the name of the lessor, and then notify the lessor.

Article 13.

The provisions of the four preceding Articles shall, *mutatis mutandis*, apply to the transferee mentioned in Article 425 of the Civil Code 1).

Article 14.

If after being rebuilt a house is still to be leased out, the original lessee shall have a preferential right to rent it.

Article 15.

If anyone who has taken back a house for his own use, keeps it vacant for three months or again leases it within one year, the original lessee shall have the right to claim for the continuation of his lease; he may furthermore ask for compensation for damage or injury.

Article 16.

The respective competent governments of the various localities or regions as mentioned in Article 1, shall, according to the provisions of Articles 94 2) and 95 3) of the Land Law, construct residential houses for the inhabitants and encourage the inhabitants to build residential houses.

Article 17.

In the localities and regions designated in Article 1, institutions which furnish dormitories to their employees, shall not receive any rent from them; those which furnish no dormitory, shall give them an appropriate sum of money as a grant-in aid.

EDITOR'S NOTES:

1) Art. 425 of the Civil Code reads as follows:

If after handing over a leased property, the lessor transfers his right of ownership to a third person, the lease shall still hold good on behalf of the transferee.

2) Article 94 of the Land Law reads as follows:

"In urban areas, the Government shall construct an appropriate number of reserve houses to be leased as residences to the inhabitants. The rental of the houses mentioned above shall not exceed an amount equivalent to an annual interest of eight per cent on the value of the land and buildings".

3) Article 95 of the Land Law reads:

"In order to relieve housing shortage, a municipal or district government may, with the approval of the Executive Yuan, reduce or suppress the land taxes and improvement tax on newly created houses, and prescribe a time limit for such reduction or exemption.